

# KICSTART YOUR BUSINESS

A workbook for entrepreneurs

## KICSTART Your Business: A workbook for entrepreneurs

Copyright © 2016 KIC InnoEnergy SE. All rights reserved.

Written by Anna Spysz

Layout and design by Kevin Hudson/paperscissorrock.com

Cover design by Kevin Hudson

Published by KIC InnoEnergy SE

No part of this workbook may be reproduced, stored in a retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, scanning, or otherwise, or utilized in any form or by any means without prior permission in writing from KIC InnoEnergy.

Requests for permission should be addressed to:

KIC InnoEnergy SE

High Tech Campus 69, 5656 AG Eindhoven

THE NETHERLANDS

or online at:

<http://www.kic-innoenergy.com>

Printed in the European Union.

This book is printed on acid-free paper. ∞

**Limit of Liability/Disclaimer of Warranty:** While the publisher and author have used their best efforts in preparing this book, they make no representations or warranties with the respect to the accuracy or completeness of the contents of this book and specifically disclaim any implied warranties of merchantability or fitness for a particular purpose. No warranty may be created or extended by sales representatives or written sales materials. The advice and strategies contained herein may not be suitable for your situation. You should consult with a professional where appropriate. Neither the publisher nor the author shall be liable for damages arising herefrom.

KIC InnoEnergy is supported by the EIT, a body of the European Union.



# KICSTART YOUR BUSINESS

A workbook for entrepreneurs

*by KIC InnoEnergy  
written by Anna Spysz*

## SECTION 1: PLANNING YOUR BUSINESS

---

|            |                              |    |
|------------|------------------------------|----|
| <b>1.0</b> | Introduction                 | 16 |
| <b>1.1</b> | Meet your customer           | 22 |
| <b>1.2</b> | From idea to solution        | 42 |
| <b>1.3</b> | What's a business model      | 60 |
| <b>1.4</b> | Types of business models     | 68 |
| <b>1.5</b> | Make your own business model | 72 |
| <b>1.6</b> | Test your business model     | 76 |
| <b>1.7</b> | From startup to business     | 94 |

## SECTION 2: FUNDING YOUR BUSINESS

---

|            |                           |     |
|------------|---------------------------|-----|
| <b>2.0</b> | Introduction              | 102 |
| <b>2.1</b> | Opportunity assessment    | 104 |
| <b>2.2</b> | Road test your startup    | 110 |
| <b>2.3</b> | Exploring funding options | 132 |

# CONTENTS

## SECTION 3: PRESENTING YOUR BUSINESS

---

## RESOURCES

---

|            |                           |     |                 |     |
|------------|---------------------------|-----|-----------------|-----|
| <b>3.0</b> | Introduction              | 140 | Glossary        | 184 |
| <b>3.1</b> | Telling stories           | 142 | Further reading | 192 |
| <b>3.2</b> | How to pitch to investors | 146 | Notes           | 194 |
| <b>3.3</b> | The pitch deck            | 152 |                 |     |
| <b>3.4</b> | Putting it all together   | 178 |                 |     |



# INTRODUCTION

What you'll learn in KICSTART Your Business



# Introduction

If you are an entrepreneur (and if you're reading this book, you're likely well on your way), you probably believe that the most important part of starting a new business is creating a great product or service that will change the world. Unfortunately, that's not the case.

*Just because you have a great, original idea does not mean you will make money from it.*

First, you need see if there are people who want to buy your product or service. Then, you need to find the best way to deliver it to them. To do this, you create a special organization called a startup and use it to test the potential of your idea.

All of this is to find a **business model** that

will deliver your product to your customers over and over—and make money for your organization.

As an entrepreneur, your goal is to build a successful, profitable company—not a startup. A startup is what you build on the way to creating a successful business.

The journey from idea to company is long and does not usually follow a straight path. However, it can be very rewarding, if you travel it with the right tools—that's how this workbook will help you.

## What's in this book?

In the first section, **Planning Your Business**, you will learn how to find your customers, how to create a **value proposition** (a product that customers want) and how to build a **business model** around it. You will also learn how to use your startup to test your business model



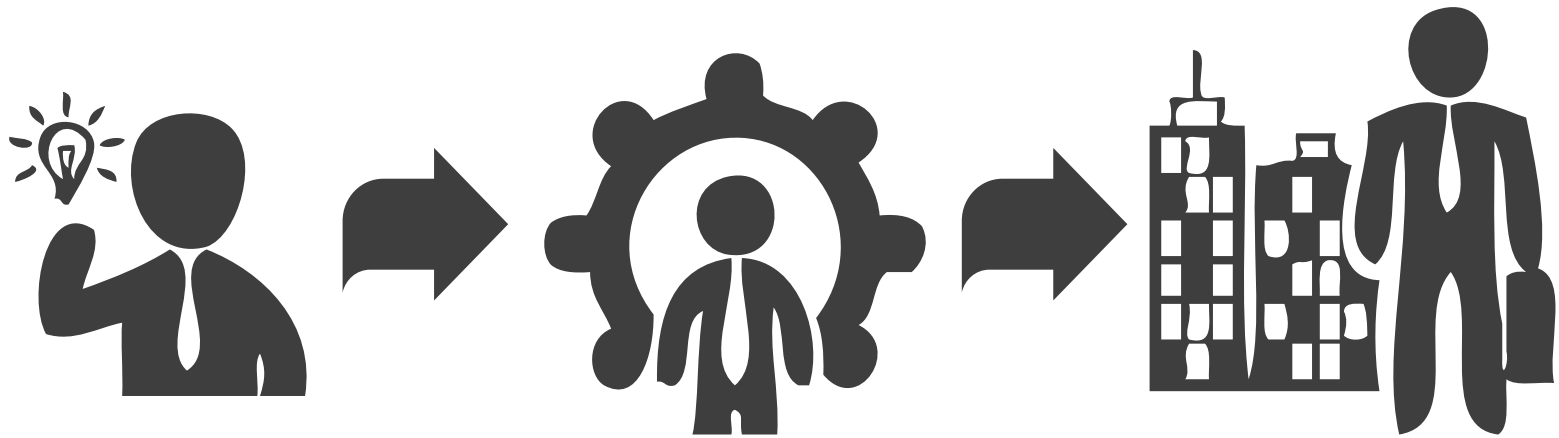
quickly and cheaply, and how to make necessary changes.

In the second section, **Funding Your Business**, you'll learn how to test your startup like an investor. You'll also better understand how venture capital works.

In the third section, **Presenting Your Business**, you'll learn how to present your startup to investors and customers.

Finally, the **Resources** section at the end contains a glossary and reading list to help you on your journey from an idea to a profitable business.

*“The goal of a startup is to figure out the right thing to build—the thing customers want and will pay for—as quickly as possible.” —Eric Ries*



## Who is this book for?

This book is for entrepreneurs in all fields and with different levels of experience, but it will be most useful for those just beginning their journey. It's for students, college graduates or former corporate employees. It's for engineers as well as managers. It's for anyone who has a great idea or invention that they would like to bring to the market.

*This book will help you turn your idea into a startup in order to find a successful business model and build a great company around it.*

## How to use this book

The first two sections of this book are meant to be read in order. The third section can be read at any time. We recommend reading it several times, especially when you are preparing to pitch or present your startup.

Each section contains exercises for you to fill out with your own examples from your current or future startup. We highly encourage you to complete these exercises to get the most benefit from this workbook.

This workbook uses simple language to explain basic concepts relevant to startups and the fundraising process. If there is any word or concept you don't understand along the way, you can look it up in the Glossary part of the **Resources** section.

In addition, an online tool will be available soon to supplement this text with video examples and more worksheets for you to print out.

While we recommend that you read this book and do the exercises at your own pace, it's best to start out with a plan for reviewing and implementing what you have learned in this book. Use the calendar on the next page to create a schedule for yourself.

For further reading, you can also start reading any of the books listed on page 192, although their main concepts will be summarized in each section.

Above all, don't give up! Building a company is hard but rewarding work, and failure is part of the process. As famous entrepreneur Eric Ries said, "Failure is a prerequisite to learning."





This workbook is based on several key books and resources and gives a summary of them as well as references to specific sections for further reading within the text. It also includes quotations from these books and several others.

If you want to gain an even deeper understanding of the topics presented, we recommend reading these books and using the online tools that come with them, as well as exploring our online resources.

Here are the books each section is based on. More materials can be found in the **Resources** section.

### Section 1: Planning Your Business

- *Value Proposition Design* by Alex Osterwalder et al.
- *Business Model Generation* by Alex Osterwalder et al.
- *The Startup Owner's Manual* by Steve Blank and Bob Dorf
- *The Lean Startup* by Eric Ries
- *Zero to One* by Peter Thiel

### Section 2: Funding Your Business

- *The New Business Road Test* (4th ed.) by John Mullins
- *Venture Deals* by Brad Feld and Jason Mendelson
- *The Entrepreneurial Bible to Venture Capital* by Andrew Romans

### Section 3: Presenting Your Business

- *Get Backed* by Evan Baehr and Evan Loomis
- *Pitching Hacks* by Venture Hacks
- *How to Win Friends & Influence People* by Dale Carnegie

*“If you’ve invented something new but you haven’t invented an effective way to sell it, you have a bad business—no matter how good the product.” —Peter Thiel*



# PLANNING YOUR BUSINESS

Find your customer and build a business model



# 1.0 Introduction: An idea is not a business

---

Congratulations! If you're reading this, you've taken the first step in turning your product or service idea into a startup. But what is a startup, exactly?

Despite what you may have heard before, a startup is not a company. A startup is the process that takes an idea for a product or service and creates a company to sell that product or service (or “**solution**” as we will call it). That process involves discovering who the customer will be, building a team of founders and creating a business model that allows you to deliver your solution to your customers.

Think of a startup as a “pre-company,” or the stage between an idea and the business built around that idea.

Legendary entrepreneur Steve Blank defines it best:

*“A **startup** is not a smaller version of a large company. A startup is a temporary organization in search of a scalable, repeatable, profitable business model.”* —*The Startup Owner's Manual*

# THE KEY PARTS OF THAT STATEMENT ARE:



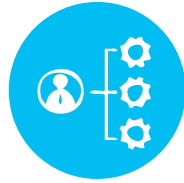
**Temporary**

**1. Temporary:** if a startup is successful, it stops being a startup and becomes a company



**Scalable**

**2. Scalable:** a startup needs to grow quickly to be successful



**Repeatable**

**3. Repeatable:** a startup needs to have a sales model that can be repeated



**Profitable**

**4. Profitable:** a startup has to make money to survive



**Biz Model**

**5. Business model:** a startup can only be successful if its business model is successful

This section will show you how to discover who your customers are, explain what a business model is and why every startup needs one, and show you how to make a business model for your solution.

If you remember nothing else from this workbook, remember this:



**IDEA DOES NOT EQUAL BUSINESS**

Just as an idea is not a business, a business model, which we will teach you to make, is not a business plan. Here are the differences:

## BUSINESS PLAN **VS** BUSINESS MODEL

- |                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                         |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none"> <li>• Used by traditional businesses</li> <li>• Static</li> <li>• Based on untested hypotheses</li> <li>• Once written, very difficult to change</li> <li>• Intended to be used as a finished plan, despite feedback from customers</li> <li>• Usually text document that spans several pages</li> <li>• Leads to failure for startups</li> </ul> | <ul style="list-style-type: none"> <li>• Used by startups</li> <li>• Dynamic</li> <li>• Provides testable hypotheses</li> <li>• Designed to be changed with each test</li> <li>• Intended to be used with customer discovery</li> <li>• Visual document using the Business Model Canvas</li> <li>• Leads to startup success if used properly</li> </ul> |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

### KEY TERMS

**Customer:** the person or business who buys your solution.

**Distribution:** how your solution gets to your customers.

**Iterate:** to make constant improvements to something after the initial version has been released.

**Minimum Viable Product (MVP):** the version of a new product that allows startups to collect the maximum amount of validated learning about customers with the least effort.

**Product/Market Fit:** when your solution solves the problems of your Customer Segment and a substantial number of customers “hire” your value proposition.

**Solution:** the product or service you’re selling.

**Startup:** a company or organization in the first stage of its operations designed to search for a repeatable and scalable business model.

**Value:** what you’re really creating for the customer, and what makes the customer buy your solution.

## Exercise 1: Think problems, not solutions

---

Throughout this section, you'll find that we talk a lot about how to solve the problems that customers have—not about how to create awesome products. This might be counter to everything you've learned about being an entrepreneur. Most people think the solution comes first. However, no solution will succeed unless it solves a real problem that enough people have. That's why to create a great solution, you have to first deeply understand the problem it's supposed to solve.

Think about Facebook. You might think that it began with Mark Zuckerberg building his website. Once his fellow students saw how great it was, they quickly joined and it spread to other students and then to the world. Right?

Wrong! The first Facebook website was terrible! But it did solve a problem: how to find and communicate with other students. Today people don't use Facebook because it has great UI or because it's the nicest-looking social network. They use it because it solves their problem: how to communicate with all of their friends.

Once you understand that people buy products or services to solve their problems, rather than for specific features, you'll start seeing more and more problems to solve—and eventually start coming up with some solutions. This is how you think like an entrepreneur!

1. Facebook
2. iPod
3. Google
4. Amazon.com
5. Uber
6. PayPal
7. Tesla Motors
8. GoPro
9. Kickstarter
10. SpaceX
11. \_\_\_\_\_
12. \_\_\_\_\_
13. \_\_\_\_\_
14. \_\_\_\_\_
15. \_\_\_\_\_
16. \_\_\_\_\_
17. \_\_\_\_\_
18. \_\_\_\_\_
19. \_\_\_\_\_
20. \_\_\_\_\_

On the left, we've listed several popular products and companies. Identify the main problem they solve (rather than writing what they do). Then, write some products you use regularly and what problem they solve for you. We've written a few to get you started:

1. Communicating with your friends
2. Listening to your music collection away from home
3. \_\_\_\_\_
4. \_\_\_\_\_
5. \_\_\_\_\_
6. \_\_\_\_\_
7. \_\_\_\_\_
8. \_\_\_\_\_
9. \_\_\_\_\_
10. \_\_\_\_\_
11. \_\_\_\_\_
12. \_\_\_\_\_
13. \_\_\_\_\_
14. \_\_\_\_\_
15. \_\_\_\_\_
16. \_\_\_\_\_
17. \_\_\_\_\_
18. \_\_\_\_\_
19. \_\_\_\_\_
20. \_\_\_\_\_

## EXERCISE

### Optional exercise: Problem Journal

The previous exercise is a start, but if you really want to think like an entrepreneur, you need to practice thinking about problems every day.

To help you do this, you'll need to create a **Problem Journal**.

First, buy a blank notebook (any kind) or start a text file on your desktop. Every day at around the same time, spend up to 5 minutes answering the following questions:

1. **What things frustrated you today?**
2. **What things did you hear other people complaining about today?**
3. **What did you use today that you wish worked better?**
4. **What was the biggest problem you faced today?**
5. **What is one way to solve any of the above problems?**

It's important to do this daily, so set an alarm on your phone or a reminder on your computer to remind you!

This daily exercise is designed to get you to become aware of and identify the problems around you. They can be general or related to your industry or job. The important thing is to get used to thinking about the problems you and others experience every day!

# 1.1 Meet your customer

You have a great idea. That great idea will make a great product. As soon as the product is available, customers will automatically know about it and rush out to buy it, right?

Unfortunately, it doesn't work that way.

You might think your idea or innovation is great, but if you want to start a business, it doesn't matter what you think. One more time: ***it doesn't matter what you think.*** What matters is what the customer thinks.

After all, it's the customer who will give you money for your product. You're not going to sell it to yourself, are you?

So how do you find out what your potential customers think? Great question! The answer is simple: talk to them.

In *The Startup Owner's Manual*, authors Steve Blank and Bob Dorf continually stress

one main idea: "Get out of the building." What this means is get out from behind your computer or workstation, stop building and start listening.

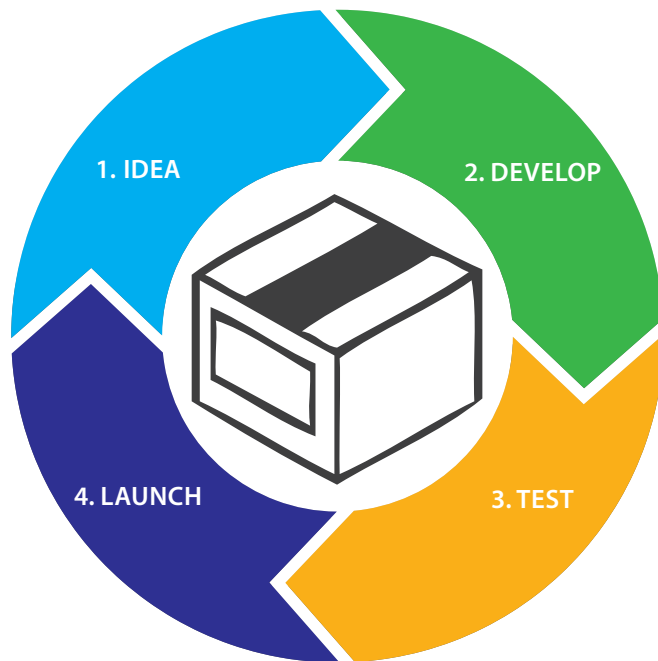
In this section you'll find out why, how, and what to ask your potential customers once you've found them.



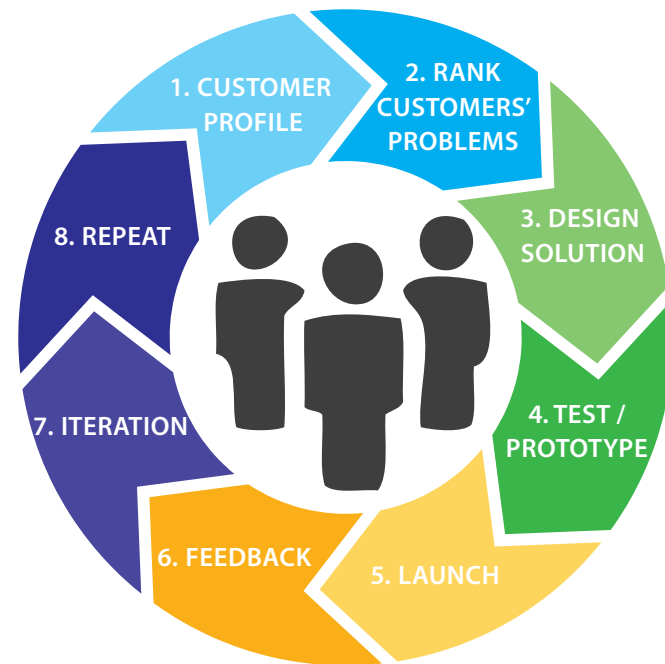
*"Facts live outside the building, where future customers live and work, so that's where you need to go."—The Startup Owner's Manual*

*“Startups need extensive contact with potential customers to understand them, so get out of your chair and get to know them.” —Eric Ries*

## OLD MODEL: PRODUCT-CENTRIC



## NEW MODEL: CUSTOMER-CENTRIC



## Exercise 2: Problem brainstorming



This exercise is for new entrepreneurs who don't have a product or service yet. If you already have a startup, you can skip it (or come back to it when you want to launch another startup).

If you've been keeping a Problem Journal (see page 21), this exercise will be quite easy for you. If you haven't, it's still a good way to get you to think about problems and solutions.

**Using a timer, list all of the answers you can think of for each question in two minutes (you can use a notebook if you run out of space):**

1. What problems keep you up at night?

2. What problems do you spend the most money on solving?

3. What do you spend most of the day doing, and what are the biggest problems you face when doing it?

4. What problems would you pay any price to solve?

5. What problems do you need to solve to become the person you want to be?

6. What social or environmental problems do you want to solve?

On the previous page, you wrote several (probably long) lists of problems that need solving. How do you figure out which one you should solve? And more importantly, how do you figure out which problem you can build a business around?

Go back to the previous page.

**Using your timer again, take no more than a minute per question to decide which two problems are the most true for each of the following questions. Put one line next to each problem, or two lines if only one problem is true.**

- 1. I think of solutions to this problem often when I'm in the shower, on a walk, etc.**
- 2. I would work on solving this problem in my free time even if I worked full time at another job.**
- 3. My 5 best friends would think it's a good idea for me to try to solve this problem.**
- 4. I would tell all my friends that I'm working on solving this problem.**
- 5. I want to spend the next 5 years learning about this problem.**
- 6. I dream of becoming a master of this field.**
- 7. This is my biggest problem right now.**
- 8. I have the most experience in this field.**



Now, go back and pick the problem that has the most lines next to it—this is the problem you will build a solution, and maybe a business, around. Then, pick the second and third problems as well, in case not enough people share your first most important problem.

**Write these here—you'll need them later:**

1.

---

2.

---

---

3.

---

---

---

# Introducing customer development

There are many examples in the business world of a company putting tons of time and money into a product that no one ends up wanting to buy. What a waste! You have probably heard the statistic “90% of startups end in failure,” but why? Those 90% did not find their customers first—and we want to make sure you’re part of the 10% that does.

The idea of **Customer Development** was first explained by Steve Blank, who has written several helpful books for startups (which are listed in **Resources**). According to Steve, “Customer Development is the process to organize the search for the business model.” This process revolves around the most important aspect of any business: the customer.

Why go through this process rather than building a product first? To save time and money—by not building a product with unnecessary features—or worse, a product

no one wants to buy.

The Customer Development Process involves the founders talking to real and potential customers about their solution, its price, its distribution and many other aspects of the business (this part is known as “**customer discovery**”). The founders use this information to improve their product. Then they take their product back to the same customers or a different set of customers to get more feedback—this is why it’s a process.

The key to building a successful product is talking to customers early and often. This is very different from the traditional sales model taught in business schools: build a good product, and then use sales and marketing to find customers for it. The old model has a huge flaw because it doesn’t answer the question: who determines what is good?

A founder might think he or she has made the best product on the planet—but if only the founder thinks so and no one else does, that product has no value and the business will fail.

*“There is surely nothing quite so useless as doing with great efficiency what should not be done at all.”—Peter Drucker*

## READ MORE

### More on customer discovery:

*The Startup Owner's Manual,*  
Step One (Chapters 3-7)

*“In a startup, the founders define the product vision and then use customer discovery to find customers and a market for that vision.”—The Startup Owner’s Manual*

## TIPS

### What is customer discovery?

Talking to potential customers to:

- see if they have the problem you think they have
- find out how they describe the problem, what words they use
- find out what they’re using right now to try to solve the problem to identify your competitors
- find out if they’re willing to pay money to solve their problem
- find out what their biggest problems are
- find out what their ideal solution looks like

At the start, founders have a long list of **hypotheses** (theories) and very few facts.

#### These theories might look like this:

- We are building product X, which will do Y and Z
- Our product does Y and Z better than product A from our competition
- Customers want Y and Z
- Customers will buy product X and we will become rich!

This looks great on paper, but there are no facts in these statements, only theories. What if it turns out that customers only like Y and Z because no one has invented feature Q, which is what they really want?

Turning theories into facts is not magic—it just requires talking to potential customers and running tests. There are two ways to find out what your customers really want: asking them directly or building a Minimum Viable Product (MVP) with different features that let you test how customers respond to it. We’ll begin with the first way.

## Finding the right customers

OK, so we know that talking to customers is a crucial part of a startup's success—but how do you find them? Easy! First, start with your friends.

*Your friends are the people you know best, who often share your interests and might share your problems as well.*

They're also the people you're most comfortable around, so asking them questions about potential problems and solutions will not be as challenging as talking to strangers.

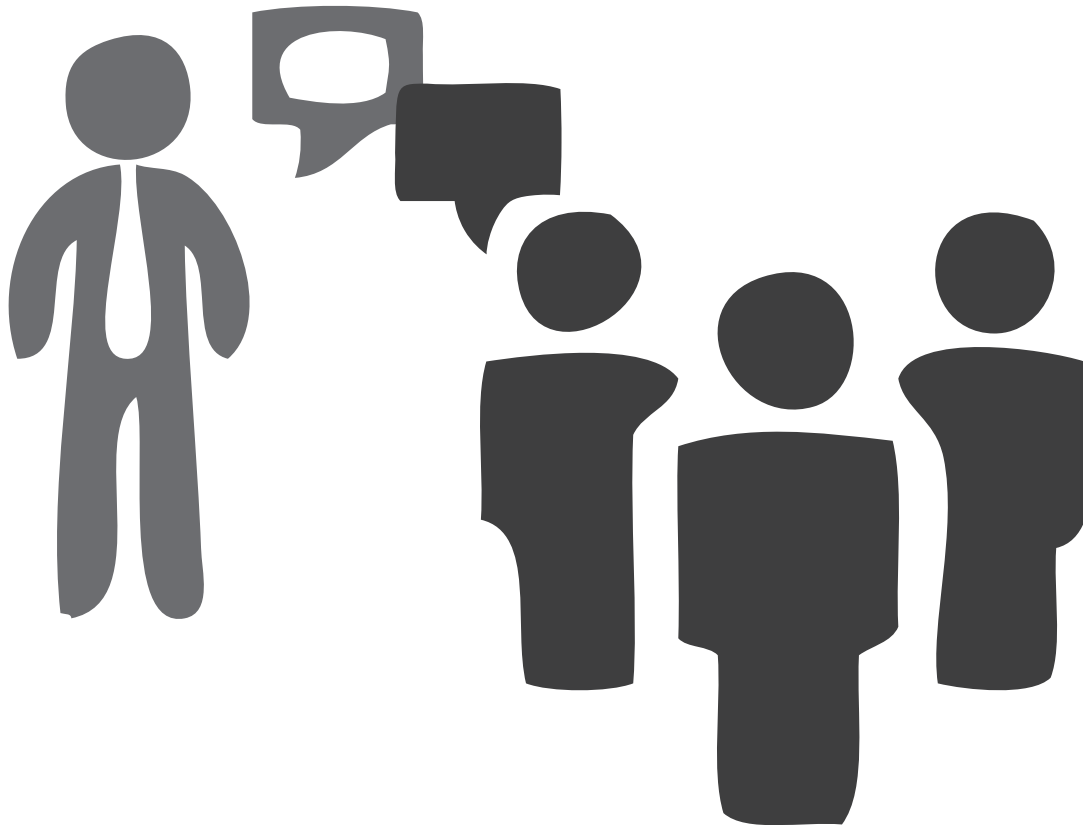
Your family members are also great to talk to as potential customers, as they will give you honest feedback. They also probably

have more diverse interests and problems than your friends, and might offer a different perspective.

Finally, reach out to your professional network, whether that's colleagues from your industry, people you've met at conferences, or graduates of your university. Even if your acquaintances do not share the problem you are trying to solve, they probably know people outside of your network that they can introduce you to.

Once you've talked to a few people, it's easy to find more by asking them if they know anyone else who might be interested in your solution. Do this each time you talk to someone and you'll never run out of potential customers!

*"It's much easier to write code, build hardware, have meetings and write reports than it is to find and listen to potential customers." —The Startup Owner's Manual*



While face-to-face contact is the most valuable, don't be afraid to use online tools to find customers, such as:

- Groups and pages on Facebook where you can post surveys
- Facebook and Google ads
- Content creation (SEO blogging, newsletters, etc.)
- An email list on your landing page
- Referrals or shares from existing customers
- Gumtree/Craigslist
- Affiliate marketers

## Exercise 3: Find your first customers

---

In many cases, your first customers will be people you already know or have met through your network. You don't know whether or not they are potential customers until you find out if they have the problem you are trying to solve.

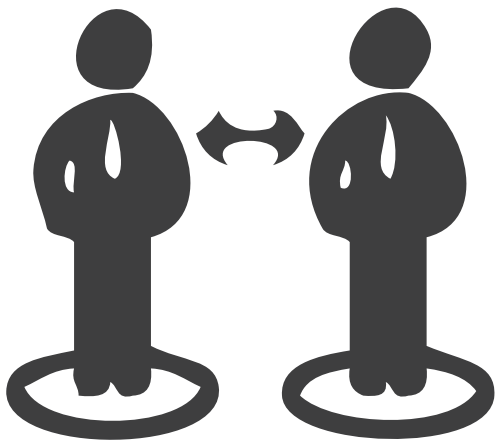
So how do you find your first customers? By talking to a lot of people! Start with people you know, then branch out to their network. Often, people will help you connect with potential customers as soon as they understand that you're trying to solve problems, not sell something.

For this exercise, take this book, or a notebook or voice recorder, and talk to 5 people in your life who you suspect might experience the problem you're trying to solve.

### Ask each person the following 4 questions:

1. I've heard that some people have trouble with \_\_\_\_\_ [problem] \_\_\_\_\_. Is this the case for you?
2. What do you currently use to \_\_\_\_\_ [solve problem] \_\_\_\_\_?
3. What would your ideal solution to \_\_\_\_\_ [problem] \_\_\_\_\_ look like?
4. If I had that ideal solution right now, would you be willing to pay for it?

Example: "I've heard that some self-employed workers have trouble with managing their time when working. Is this the case for you?" If they answer yes, ask: "What do you currently do when you need to manage your time?" and "What would be your ideal way of managing your time?"



**If your solution is B2B (sold by one business to another business), you can still try this exercise, but phrased a little differently:**

1. I've heard that some companies have a problem with \_\_\_\_\_. Is this the case for your business?
2. What do you currently use to \_\_\_\_\_?
3. What would your ideal solution to \_\_\_\_\_ look like?
4. If I had that ideal solution right now, would you be willing to pay for it?

Example: "I've heard that some companies have a problem with monitoring the energy costs of operating their retail locations. Is this the case for your business?" If they answer yes, ask: "What solution do you currently use to monitor the energy costs of operating your retail locations?" and "What would be the ideal way you would want to monitor those costs?"

When talking with a representative of a business, be sure you're speaking to the right person for the solution you have. If you're trying to find potential customers for an energy-saving device, don't talk to a company's marketing manager.

# The ideal customers: early adopters

You can't build a product for just one customer, but you also don't want to build something that tries to please everyone.

*As a startup, you want to create the most basic version of your solution that has only the features a select group of customers needs.*

You need to find a group of early customers who already understand your vision and are willing to give your solution a try—not because they're generous, but because they really need it.

The first customers you want to find are known as “**early adopters**” (or “earlyvangelists” in Steve Blank's books).

These are people who are already actively searching for a solution to the specific problem you're trying to solve. The best part is, these people are so eager for a solution they will happily accept an imperfect or unfinished—minimal—product as long as it solves their problem and they know it will be improved.

Early adopters want to be first to have or test a product. Some do it just to brag, but many people become early adopters of certain products or services because they were already searching for a solution to their problem.

For example, the first people using ride-sharing app Uber when it enters a new foreign market are usually English-speaking foreigners living in that market. Is it because they're more tech-savvy than their native colleagues? Probably not. It's because they already had a problem—ordering a taxi when you don't know the

## IMPORTANT

**Talking to customers is a job for the founders, not their employees. Only a founder knows the product, their vision, and what kind of company they want to build. Employees tend to hide negative feedback and they might not know the right questions to ask. Don't ever delegate customer discovery.**

*“The perfect target market for a startup is a small group of particular people concentrated together and served by few or no competitors.” —Peter Thiel*

local language—and Uber solves that problem by eliminating the need to talk on the phone or to the driver to get where you need to go.

When you’re developing your solution, the first people you need to talk to are those who have the problem you’re trying to solve. These people are so desperate for a solution, they’re even willing to pay you for it!

In our Uber example, the early adopters in foreign markets may have had temporary solutions they were using—like asking friends to call taxis for them—but as soon as something better came along, they switched. This is usually the case with early adopters, which is why they make the perfect first customers.

## CHARACTERISTICS OF EARLY ADOPTERS:

- THEY HAVE A PROBLEM THEY NEED TO SOLVE
- THEY REALIZE THEY HAVE THIS PROBLEM
- THEY ARE ALREADY LOOKING FOR A SOLUTION TO THEIR PROBLEM
- THEY MAY HAVE CREATED THEIR OWN TEMPORARY SOLUTION
- THEY ARE WILLING TO PAY FOR A BETTER SOLUTION

☒ \_\_\_\_\_  
☒ \_\_\_\_\_  
☒ \_\_\_\_\_

## Exercise 4: Online research

---

Remember your top problem from page 27? You're going to determine if it's worth building a solution for it. How do you decide this? You'll need to do a little online research to see if other people are also searching for ways to solve this problem—and if any solutions already exist.

**First, identify 5 keywords and/or phrases that describe your problem or potential solution:**

1. \_\_\_\_\_  
\_\_\_\_\_
2. \_\_\_\_\_  
\_\_\_\_\_
3. \_\_\_\_\_  
\_\_\_\_\_
4. \_\_\_\_\_  
\_\_\_\_\_
5. \_\_\_\_\_  
\_\_\_\_\_

Now, go on Google and enter each of the keywords or phrases, one by one.

**For each search phrase, go through the first two pages of results and look for the following:**

1. Are there people talking about having the same problem?
2. Are there already existing solutions?

For #2, pay special attention to the ads on the top and right side of the search results. If there are potential competitors advertising their solutions, don't be discouraged—in fact, it's a good sign! That means the problem is big enough that there are already people paying for solutions. Be sure to save any competitor websites you find.

Also, note what other keywords are frequently used when talking about this problem and potential solutions. These may be words you have not thought of before, but may be helpful in the future when you're describing your solution to potential customers.

## USE THIS SPACE TO RECORD YOUR NOTES:

Next, repeat the previous exercise on another platform, depending on what type of solution you want to create. If you're building a physical product, try searching Amazon.com, eBay or other national online auction sites, or even Kickstarter.com or other crowdfunding sites. If you're building a software or B2B solution, search sites like CNET or online B2B listings. If you're making a digital educational service, you can try courseware sites such as Skillshare or even YouTube.

If there are few or no search results for all of your keywords for your problem, you should reconsider your focus and see if problems #2 or #3 from your list do better.

## Exercise 5: Pick your problem



After you have researched your problem online and talked to several potential customers, it's time to revisit your initial theories.

**Once again, you will use a timer and write down all of the answers you can think of for each question in 2 minutes. Use a notebook if you run out of space.**

**1. What are the most important things you learned while researching your problem online and talking to potential customers?**

**2. What new problems did you think of or discover when talking to potential customers?**

3. What social or environmental problems do you want to solve?

4. What problems do you think about often when you're in the shower, on a walk, etc.?

5. What problems would you want to work on in your free time, even if you worked a full-time job?

6. If you told your 5 best friends you were working on a solution, what would they think was the coolest part of it?

Now it's time to figure out the most important problem. Though this exercise is very similar to the Problem Brainstorming one from page 24, it's important to do it again to think even more deeply about your problem.

Go back to the previous page.

**Using your timer again, take no more than a minute per question to decide which two problems are the most true for each of the following questions. Put one line next to each problem, or two lines if only one problem is true.**

- 1. Which of the problems is so painful for customers that they would pay right now for a solution if it already existed?**
- 2. Which problem was the most common—the most people experienced it?**
- 3. Which problem is in a field that you have the most experience in?**

When you're done, look at which three problems have the most lines. Out of those three, pick the one that you are most passionate about solving right now. This will be the problem you will start with for the next exercise.

**Write down your top 3 problems here:**

- 1.** \_\_\_\_\_  
\_\_\_\_\_
- 2.** \_\_\_\_\_  
\_\_\_\_\_
- 3.** \_\_\_\_\_  
\_\_\_\_\_

# Exercise 6: Is your problem validated?

This exercise will help you determine if the problem you have researched and talked to customers about is worth solving—is it validated?

## A validated problem has three aspects:

- It exists: people have it and have talked about it
- It is not being solved, or it is being solved poorly or ineffectively
- A reachable market has this problem—people you have access to

**For each question below, answer with a value from 1-10 (10 = yes, I really agree, 1 = no, I really disagree).**

1. Have at least 5 potential customers confirmed they have this problem? \_\_\_\_\_
2. Are there any competitors currently making money selling a solution to this problem? \_\_\_\_\_
3. Can you imagine a better solution to this problem than those that are currently available? \_\_\_\_\_
4. Do you personally have access to at least 20 potential customers that have this problem who you could meet within 2 days? \_\_\_\_\_
5. Do you think about this customer or this pain or both regularly? \_\_\_\_\_
6. Would you work a full-time job so you could solve this problem and help this customer in your spare time? \_\_\_\_\_
7. If you told your 5 closest friends that you were solving this problem, would they think it was a good idea? \_\_\_\_\_

**Add up all the points, and write your total score here: \_\_\_\_\_**

## RESULTS:

**<30 – your problem is not validated**

**30-50 – your problem is unclear**

**>50 – your problem is validated**

If your problem is not validated, you have 2 options:

1. Talk to 5 more customers using the exercise on page 32 and then try this exercise again
2. Move on to your #2 problem from the previous page, research it online and talk to customers about it

If your problem is unclear, you have 2 options:

1. Talk to 5 more customers using the exercise on page 32 and then try this exercise again
2. Continue to the next exercises if you feel really passionate about solving this problem

If your problem is validated, you should continue on to the next exercises.

# 1.2 From idea to solution



As we emphasized earlier, finding your customers is the most important step when building a startup. But once you have some potential customers you can talk to about your idea, it's time to start transforming that idea into a product or service—a **solution**.

There are two very valuable tools you will use when turning your idea into a startup, and your startup into a business: the **Value**

**Proposition Canvas** and the **Business Model Canvas**. Both of these were developed by some very smart people at a company called Strategyzer in the books *Value Proposition Design* and *Business Model Generation*, written by Alex Osterwalder and his team.

In this chapter, we'll start with Value Proposition Design: what is it, how you can use it, and how the Value Proposition

Canvas can help you find your customer and design your solution.

But first, let's explain the specific vocabulary that's used throughout these books, as it might be unfamiliar to many readers. We will use this vocabulary throughout Sections 1.2, 1.3, 1.4, 1.5, and 1.6.

## KEY TERMS

# Strategyzer vocabulary\*

### Business Model

Rationale of how an organization creates, delivers and captures value.

### Business Model Canvas

Strategic management tool to design, test, build, and manage (profitable and scalable) business models.

### Customer Profile

Business tool that constitutes the right-hand side of the Value Proposition Canvas. Visualizes the jobs, pains, and gains of a customer segment (or stakeholder) you intend to create value for.

### Environment Map

Strategic foresight tool to map the context in which you design and manage value propositions and business models.

### (Business) Experiment/Test

A procedure to validate or invalidate a value proposition or business model hypothesis that produces evidence.

### Fit

When your products and services create customer value because they address relevant jobs, pains, and gains that matter to your customers. There are three types of fit: problem-solution fit; product-market fit; and business model fit.

### (Business) Hypothesis

Something that needs to be true for your idea to work partially or fully but that hasn't been validated yet.

### Jobs

What customers need, want, or desire to get done in their work and in their lives.

### Search & Implement

A constant back and forth between where you design and test business models and value propositions. You continually iterate between what you design and what you test (implementation) until you find a value proposition that customers want, that can also be embedded into a scalable and profitable business model.

### Validate/Invalidate (Tests)

A series of hypotheses you will test that will either prove your assumptions to be correct or incorrect. The outcomes from these tests will help you understand the viability of your business idea.

### Value Map

Business tool that constitutes the left-hand side of the Value Proposition Canvas. Makes explicit

how your products and services create value by alleviating pains and creating gains.

### Value Proposition

Describes the benefits customers can expect from your products and services.

### Value Proposition Canvas

Strategic management tool to design, test, build, and manage products and services. Fully integrates with the Business Model Canvas.

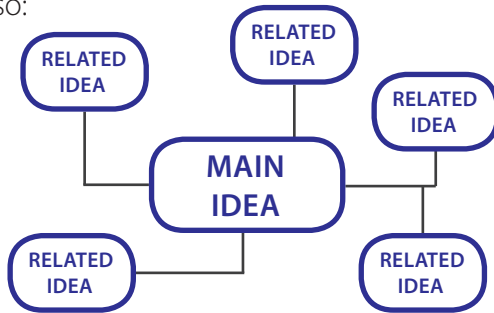
### Value Proposition Design

The process of designing, testing, building, and managing value propositions over their entire lifecycle.

*\*all content taken with permission from the Strategyzer blog: ([blog.strategyzer.com/posts/2015/11/5/the-vocabulary-of-strategy-innovation-entrepreneurship](http://blog.strategyzer.com/posts/2015/11/5/the-vocabulary-of-strategy-innovation-entrepreneurship))*

## Exercise 7: Mind maps

In the spaces to the right, you will create two mind maps—a diagram that starts with one central idea and branches out, like so:



**In the circle to the right, write down your main problem that you're trying to solve in 1 sentence.**

**Around that sentence, list all of the related problems that people are already paying to have solved.**

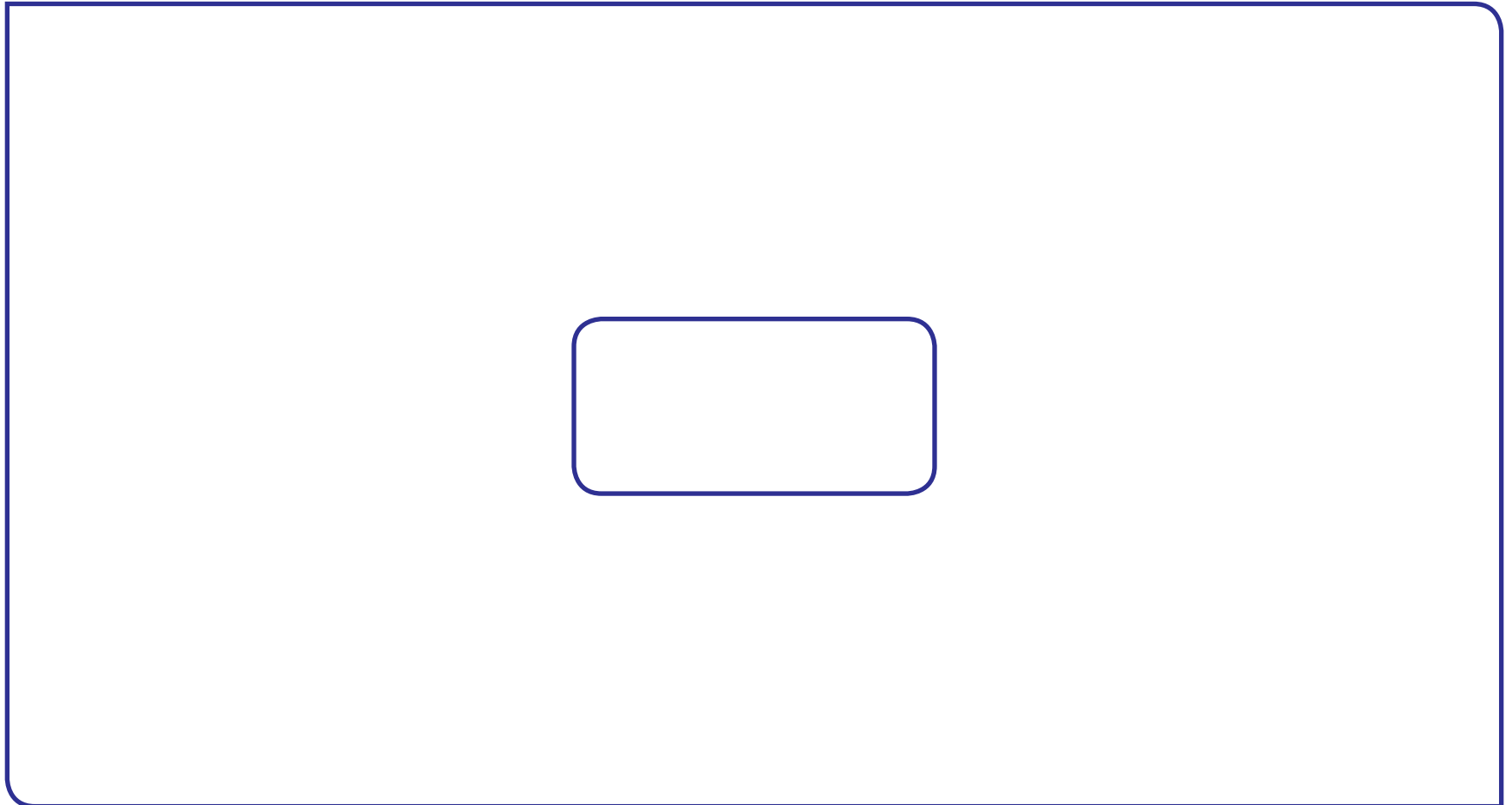
**Around those problems, write all of the key words or phrases your competitors are using to describe the problem they are solving.**



In the circle below, write down the most common problem that was described by your potential customers in 1 sentence.

Around that sentence, list all of the reasons why your customers have this problem—what are the actions or behaviors that contribute to this problem?

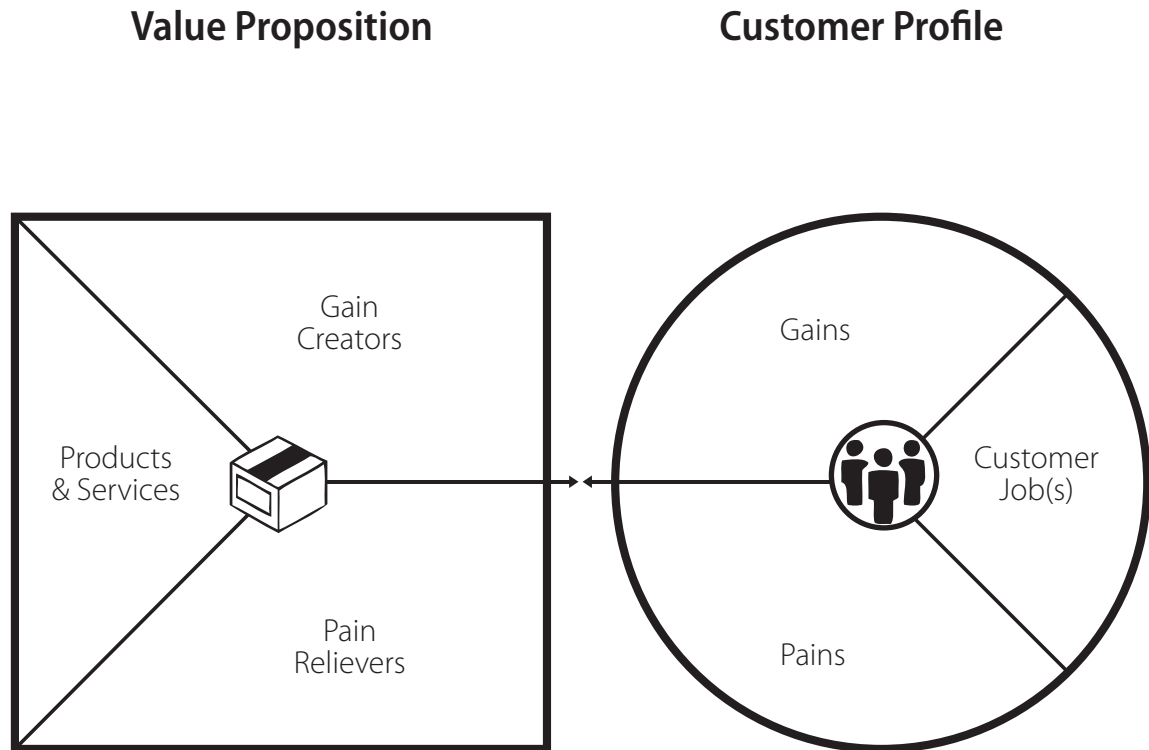
Around those reasons, write what your customers told you they would pay to solve, or what you think they would pay you to solve this problem.



# Introducing the value proposition canvas

The **Value Proposition Canvas** is a tool entrepreneurs use when deciding what solution (called a Value Proposition) to build their company around.

On the left side is the **Value Map**, while the right circle is the **Customer Profile**. Since we were just talking about discovering your customer's problems, let's start with the Customer Profile.



*“Success is not delivering a feature; success is learning how to solve the customer’s problem.”—Eric Ries*

## Stepping into your customers’ shoes

You have found your first potential customers—awesome! But what do you know about them? You might even have a few different types of customers, but you don’t know what each of them want. Or you have a new idea and no customers yet, but you have an idea of who your ideal customers might be.

That’s where the customer profile comes in. It’s a tool that will help you think like your customer—about their needs and wants, and about the possible solutions to their problems.

Remember the people you talked to in the “Find Your First Customers” exercise? You’re going to use them to create a profile of your first **customer segment**. A customer segment is a group of your customers that have similar problems. Most established companies have several different customer segments.

For example, take Google. The segment of advertisers that buy products such as AdWords has different needs than the segment of Google Apps for Business customers who pay for cloud storage and customized Gmail accounts, yet they are both paying Google customers. Google has to think differently about the problems faced by both segments, and create products and services that solve these different problems.

While so far we’ve been talking about the general customer problems that you want to solve with your **solution**, the Customer Profile tool breaks down those problems into three categories:

1. **Customer jobs**: the things your customers do on a regular basis, whether at their actual jobs, in social situations or in their personal lives
2. **Customer pains**: the things that hinder your customers from doing their jobs or make their jobs harder
3. **Customer gains**: the things, whether expected or unexpected, that benefit customers or make their jobs easier

All of these come together to create a customer profile, which you will make in the next exercise.

## Exercise 8: Creating a customer profile

---

Use the page on the right, or print out your own copy from our website to fill in the customer profile for your startup.

Here are some rules:

- 1. Select only one customer segment at a time. If you have more than one, create a customer profile for each one.**
- 2. Identify your customers' jobs and write each one on the right slice.**
- 3. Identify your customers' pains and write each one on the bottom slice.**
- 4. Identify your customers' gains and write each one on the top slice.**
- 5. Write as many items as you can think of. If you run out of room, use notecards or print out a larger version of the profile.**

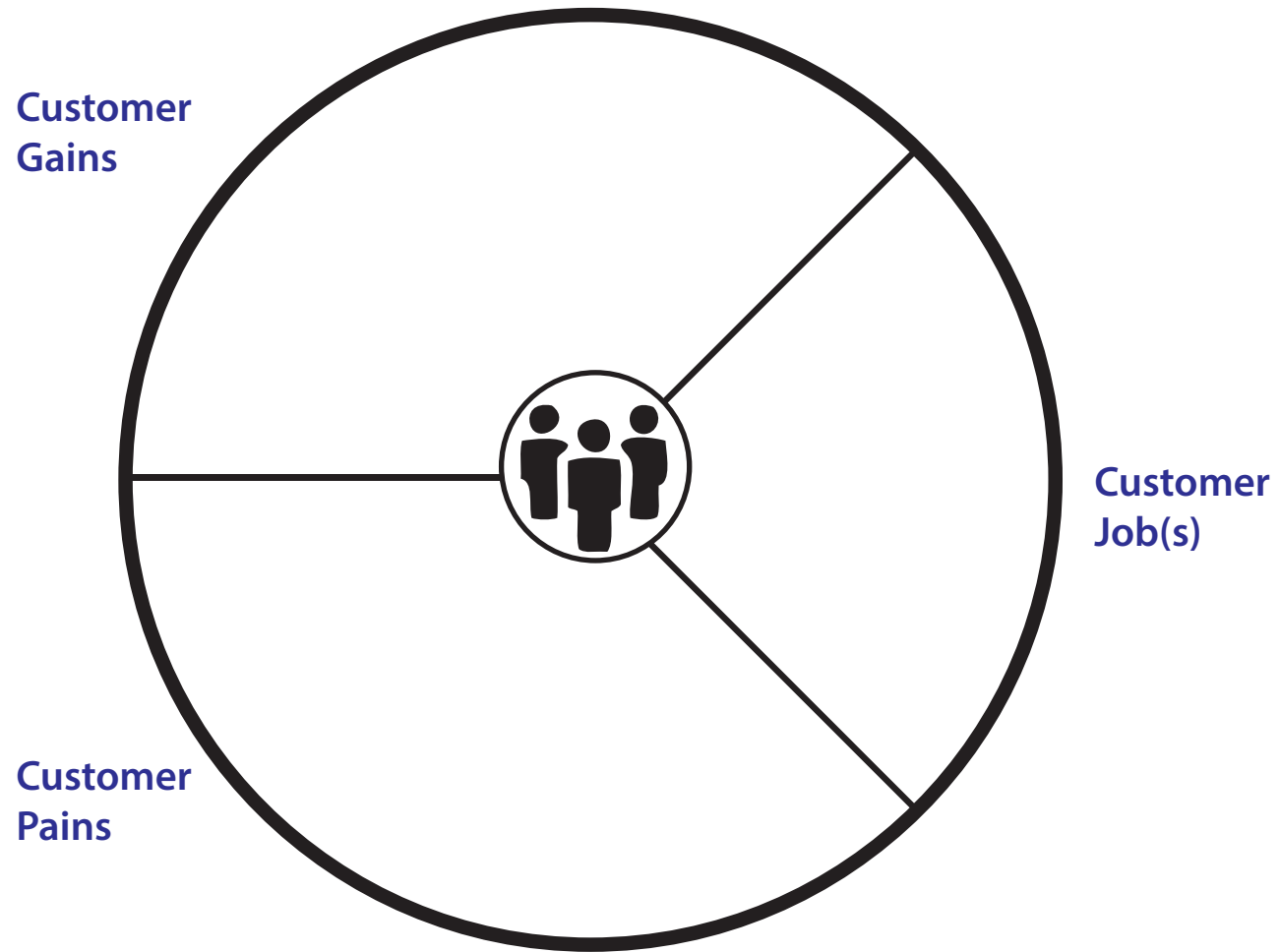
Don't worry about writing in any kind of order. In the next exercise, you'll prioritize the jobs, pains, and gains you listed here.

Note: if your startup is B2B, the customer you are profiling is not a whole company you want to sell your solution to, but the individual in charge of buying solutions like yours. After all, companies are made up of people, so profile the people, not the company!

**Here are some questions to help you think about your customers' jobs, pains, and gains:**

- 1.** What tasks are your customers trying to perform in their work or personal lives? What functional problems are your customers trying to solve?
- 2.** How does your customer want to feel? What does your customer need to do to feel this way?
- 3.** What makes your customers feel bad? What are their frustrations, annoyances, or things that give them a headache?
- 4.** What common mistakes do your customers make? Are they using a solution the wrong way?
- 5.** What would make your customers' jobs or lives easier? Could there be a flatter learning curve, more services, or lower costs of ownership?
- 6.** What are customers looking for most? Are they searching for good design, guarantees, specific or more features?

# CUSTOMER SEGMENT



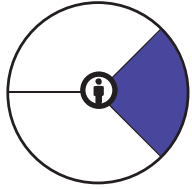
## Exercise 9: Ranking customer problems

---

**In this exercise, you will take the customer jobs, pains, and gains you listed on the previous page and rank them from most important to least important.**

It's important to remember that this order should be according to how your customers actually think and feel—not just your guess or how you think or feel. How do you find out? Simple: ask your customers!

When talking with potential customers about a problem, ask them how strongly they feel about it—is it a problem they can manage, but that would be nice to solve, or is it a problem that is so severe it is keeping them from performing a job or other necessary task?

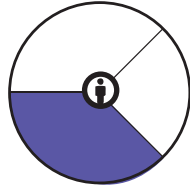
**JOB IMPORTANCE**

Rank jobs according to their importance to customers.

IMPORTANT



NOT IMPORTANT

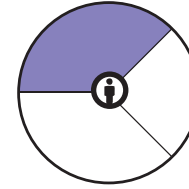
**PAIN SEVERITY**

Rank pains according to how extreme they are in the customers' eyes.

EXTREME



MODERATE

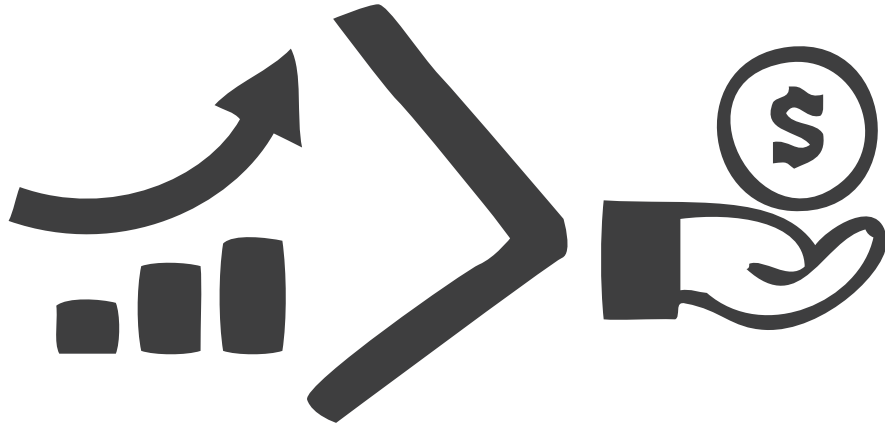
**GAIN RELEVANCE**

Rank gains according to how essential they are in the customers' eyes.

ESSENTIAL



NOT ESSENTIAL



### Creating value for your customers

Once you have identified your customers' problems (jobs, pains, and gains), it's time to identify your solution—known here as your Value Proposition. A value proposition is all of the benefits customers can expect from your solution, and can be displayed on a [Value Map](#).

*Remember: the products and services your company makes are not valuable in themselves; they only have value if a customer segment finds them valuable.*

### IMPORTANT

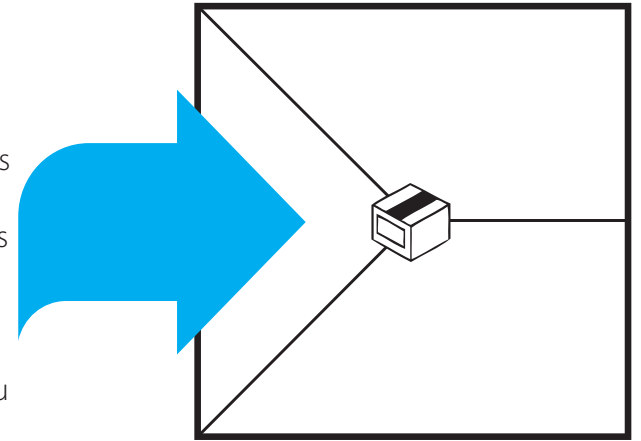
Why value? As a startup, your job is to create value for your customers, not profits. Profits can be misleading—a company can be profitable at the beginning, but if it's not creating real value, it will still fail in the long term. Value is what customers will pay for, tell their friends about, and will keep paying for in the future.

Just as there are three categories of customer problems, there are three categories of solutions:

1. **Products and services:** all of the physical, digital, or financial products or services your company offers to customers.
2. **Pain relievers:** how your products or services solve specific pains that customers face.
3. **Gain creators:** how your products or services create specific customer gains.

How do these features of your solution differ from your customers' pains and gains? You have control over them. While you don't get to decide what problems your customers have, you can decide which of those problems to try to solve and how.

Just as you can rank customer problems from severe to moderate, you can rank the features of your solutions from "extremely important" to "nice to have." On the next page, you will create your own Value Map for your startup and rank your solution's features.



## Exercise 10: Creating a value map

---

Use the page on the right, or print out your own copy from our website to fill in the value map for your startup.

Here are some rules:

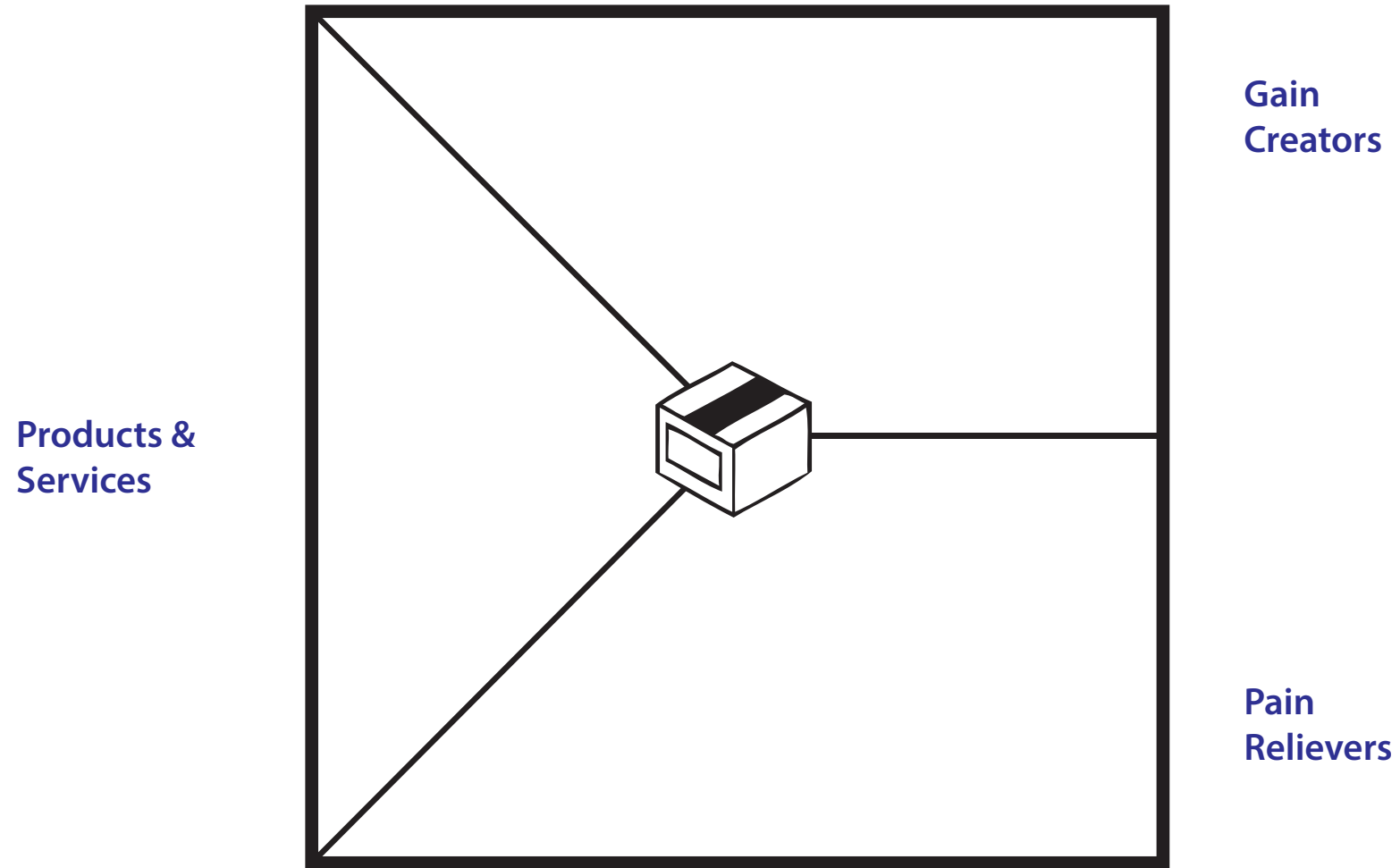
- 1. You should not think of every possible feature here. Instead, focus on the features that address the problems customers in one customer segment have. If you have more than one customer segment, create a value map for each one.**
- 2. Identify your products and services and write each one on the left slice.**
- 3. Identify your pain relievers and write each one on the bottom slice.**
- 4. Identify your gain creators and write each one on the top slice.**
- 5. Write as many items as you can think of. If you run out of room, use notecards or print out a larger version of the profile.**

Don't worry about writing in any kind of order. In the next exercise, you'll prioritize the solutions, pain relievers, and gain creators you listed here.

**Here are some questions to help you think about your solution's features:**

- 1.** In what ways can your solution fix underperforming solutions? By introducing new features, better performance, or enhanced quality?
- 2.** In what ways can your solution eliminate barriers that are keeping your customer from adopting similar ones?
- 3.** Can your solution put an end to the difficulties and challenges your customers encounter?
- 4.** Can your solution produce outcomes your customers expect or that exceed their expectations?
- 5.** In what ways can your solution make your customers' work or life easier? Via better usability, accessibility, more services, or lower cost of ownership?
- 6.** Can your solution fulfill a desire customers dream about?

# Value Proposition



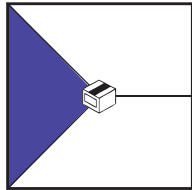
# Exercise 11: Ranking value propositions

---

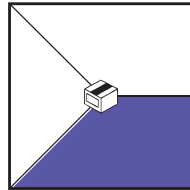
**In this exercise, you will take the products and services (solutions), pain relievers, and gain creators you listed on the previous page and rank them from most important to least important.**

It's important to remember that this order should be according to how your customers actually think and feel—not just your guess or how you think or feel. How do you find out? Simple: ask your customers!

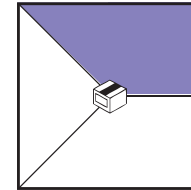
When talking with customers about a proposed solution, ask them how strongly they feel about it—is it a feature that would be nice to have, or is it one that's so essential they wouldn't consider your solution without it?



**SOLUTIONS**  
Rank solutions according to their importance to customers.



**PAIN RELIEVERS**  
Rank pain relievers according to how essential they are in the customers' eyes.



**GAIN CREATORS**  
Rank gains according to how essential they are in the customers' eyes.

ESSENTIAL



NICE TO HAVE

ESSENTIAL



NICE TO HAVE

ESSENTIAL



NICE TO HAVE

## Finding fit



In your startup experience, you may have heard about “product/market fit” or similar ideas. What this means is that the two sides of the Value Proposition Canvas, the customer profile and the value map, line up. This happens when your value proposition—your solution—is addressing the jobs, pains, or gains—the problems—of your customer segment.

On the right, we show the three types of fit you need to achieve to go from idea to successful company.

In the next section, you’ll learn how to consider your customer segment and your solution in the larger context of a business model.



*“Your customers are the judge, jury, and executioner of your value proposition. They will be merciless if you don’t find fit!” —Value Proposition Design*

*“Startups occasionally ask me to help them evaluate whether they have achieved product/market fit. It’s easy to answer: if you are asking, you’re not there yet.”—Eric Ries*

## PROBLEM- SOLUTION FIT

## PRODUCT- MARKET FIT

## BUSINESS MODEL FIT

- You have chosen a customer segment to target
- You have evidence that your customers have certain jobs, pains, and gains
- You have designed a solution that addresses those jobs, pains, and gains
- The fit between your customer’s problem and your solution exists on paper, but is still unproven in the real world
- You are turning an idea into a startup
- You have evidence that your solution is solving your customers’ problems

- You have evidence you are creating value for customers
- You are gaining customers in your chosen customer segment (traction)
- You are working to test the assumptions you made about your solution
- You are turning a startup into a company

- You have evidence that your solution can fit into a profitable and scalable business model
- You are generating a profit
- Your startup has become a company

### READ MORE

#### More on types of fit:

*Value Proposition Design*, 1.3 (pages 40-63)

## Exercise 12: Finding fit

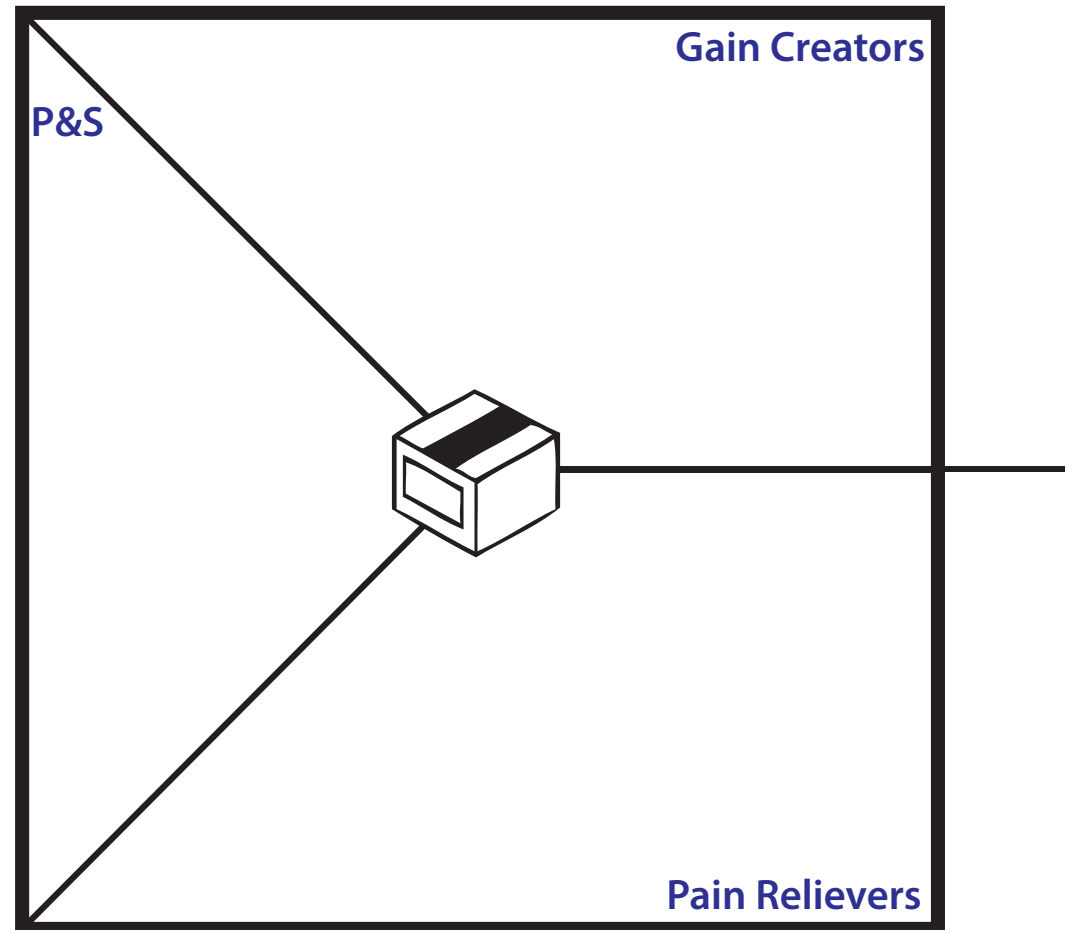
Now it's time to put both sides of the Value Proposition Canvas together.

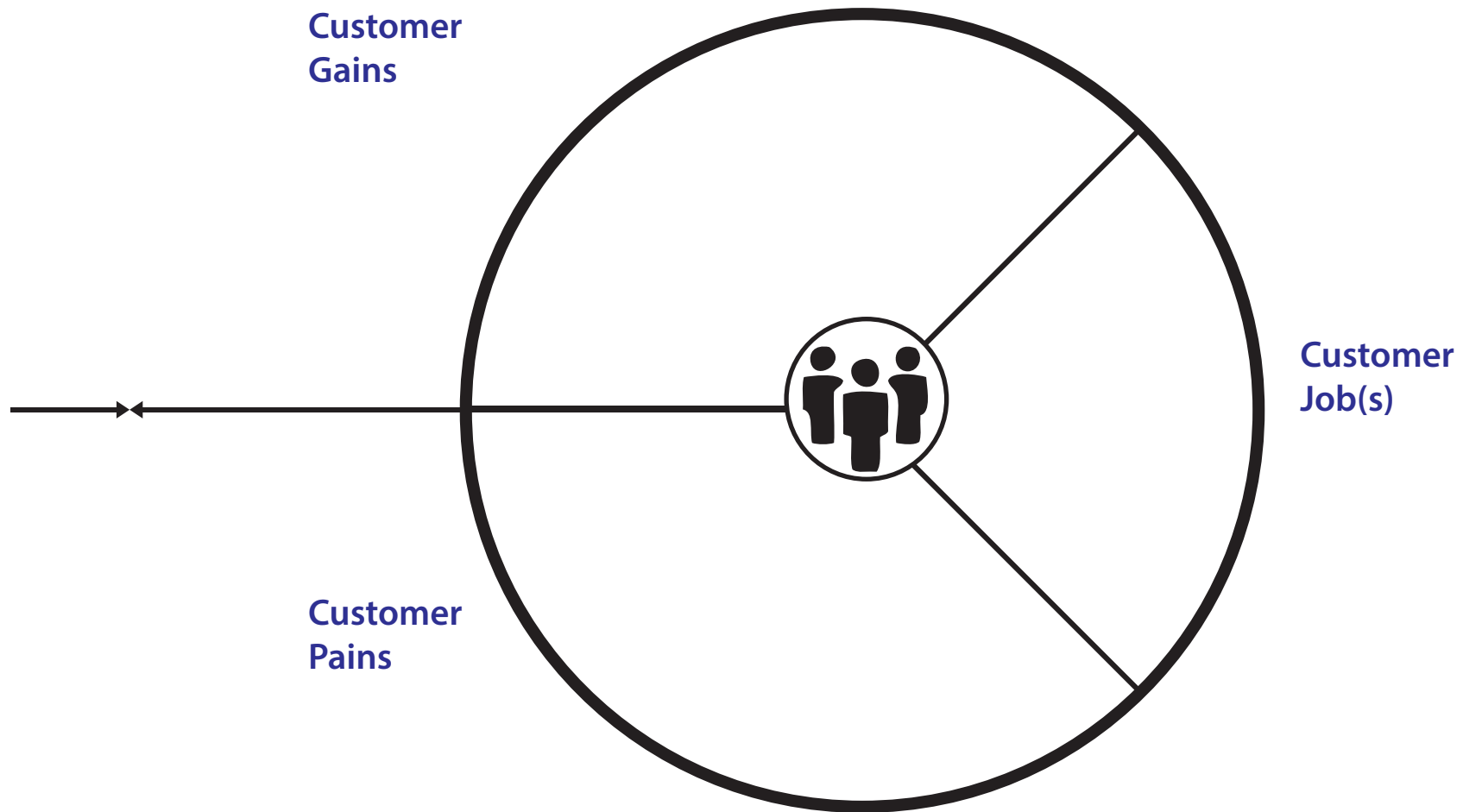
**Take your ranked lists of customer jobs, pains, and gains from Exercise 9 and your ranked list of solutions, pain relievers, and gain creators from Exercise 11 and fill in the canvas to the right. If your lists are very long, add only those items that are ranked the highest.**

Now that you have everything on one page, you should be able to quickly match pains with pain relievers and gains with gain creators. Feel free to draw arrows between them. Any solution that doesn't have a match is probably an unnecessary feature.

In the end, this exercise will help you answer the most crucial question a startup can ask: "How does my solution really fit my customer?"

**If you want to see an example of what this looks like, download our sample Value Proposition Canvas from our website.**





# 1.3 What's a business model and why you need one

If you think of the company you're building as a house, the business model is the frame: it's easy and cheap to put up or change, but you want to make sure it's built right before you fill it in with walls, doors, and windows.

In the last chapter, we built part of the frame—now it's time to fill in the rest. Later, we'll test the design and change it if we need to, before filling in the walls.

On page 19, we explained some of the differences between a traditional business plan and a business model. A business plan is used by an established company with years of experience and known customers and products. Startups, on the other hand, do not know either their customers or products, so they need a flexible business model instead.

A business plan is written once and then followed. A business model allows for experimentation—that's what it's designed for. That means making guesses, testing them, then making changes based on the results of those tests. That's how a startup operates.

But what exactly is a business model? Here's the definition, from the book *Business Model Generation*:

*“A **business model** describes the rationale of how an organization creates, delivers, and captures value.”*

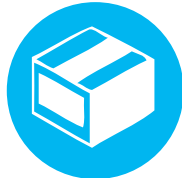


# THE KEY PARTS OF THAT STATEMENT ARE:



## Rationale

**1. Rationale:** the reason why a startup does things a certain way



## Creates

**2. Creates:** a startup needs to make a product or service (a solution) to sell



## Delivers

**3. Delivers:** the startup's delivery or distribution method is how it gets its solution to the customer



## Captures

**4. Captures:** to survive, the startup needs to have a way to get money from the customer



## Value

**5. Value:** customers will only buy something that they find valuable to them

# Introducing the Business Model Canvas

The **Business Model Canvas** is a visual tool used by startups to map out the way they intend to make money. It is made up of 9 parts. Put together, the Canvas illustrates how the 9 aspects of the business interact with each other—the startup's **business model**. In order to create a profitable business, you need to think about and plan each part of the Canvas, not just your solution.

Below we've listed the official title of each block of the Business Model Canvas, our simplified name, a brief description of what each block represents, and sample questions you should answer that will help you determine how each part refers to your own business.

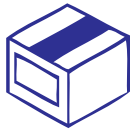


## CUSTOMER SEGMENTS

*customers*

**who you're selling to**

What kinds of customers are you serving? What are their problems?



## VALUE PROPOSITION

*solution*

**what you're selling**

What are you offering to your customers? Does that solve their problems?



## CHANNELS

*distribution*

**how you reach customers**

How do your customers want to be reached? What's the best way to get your solution to them?



## CUSTOMER RELATIONSHIPS

*customer acquisition*

**how you get/keep customers**

What relationship do you want between your business and your customers? Will it be personal, automated, acquisitive, or retentive?

*“Even great value propositions fail without a sound business model.” —Value Proposition Design*



## REVENUE STREAMS

*cashflow*

**how you make money**

What are customers willing to pay for, and how much? Are the payments one-time (transactional) or repeated (recurring)?



## KEY RESOURCES

*the team*

**who makes the solution and how**

Which resources are essential for your business to work? Which are optional?



## KEY ACTIVITIES

*operations*

**what you have to do to get the solution to the customer**

What are the activities your business performs every day? Which ones are necessary for the business to succeed and grow?



## KEY PARTNERSHIPS

*partners*

**who helps you make or sell your solution**

What partners are necessary for your business to work? Who are your suppliers, and how do they benefit from the relationship?



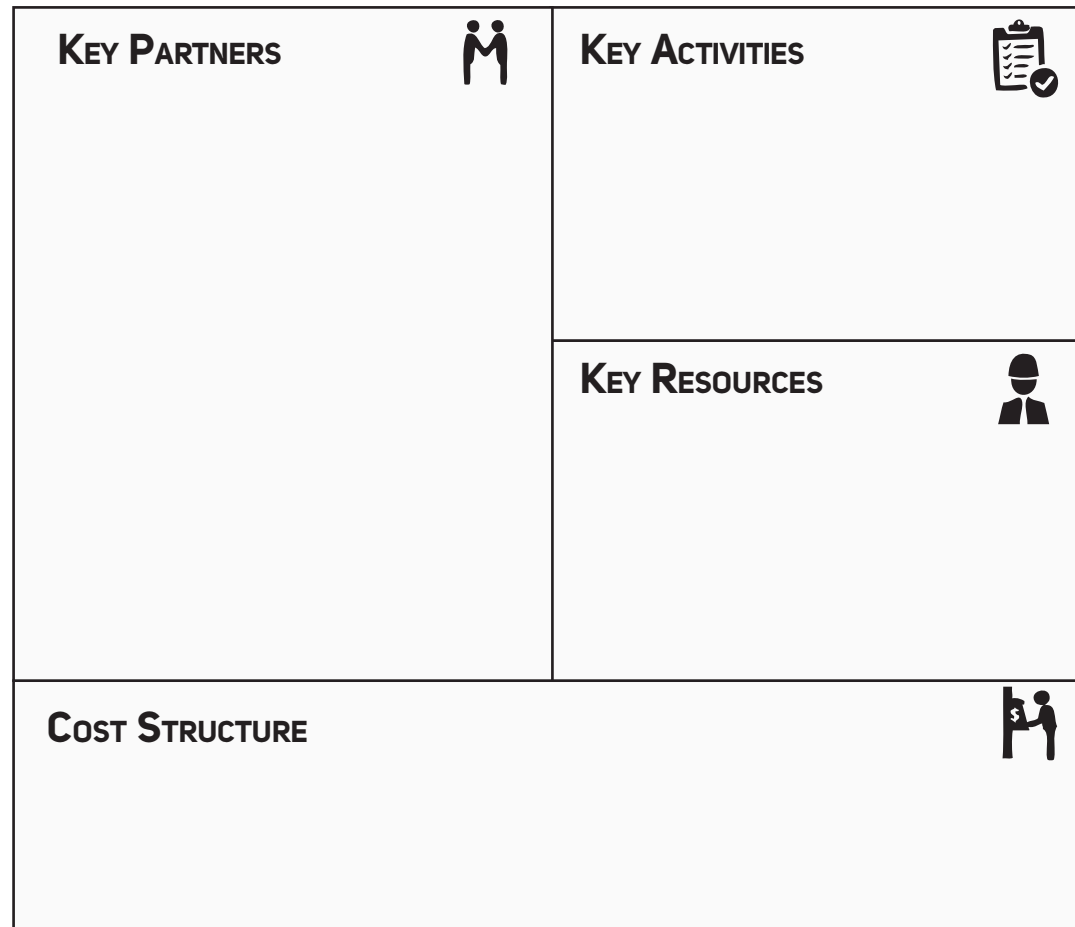
## COST STRUCTURE

*expenses*

**the money the company needs to spend to do business**

What are the most expensive aspects of the business? Which costs are necessary, and which are optional?

All of these parts come together to create the Business Model Canvas:



|                                                                                                                     |                                                                                                                          |                                                                                                                     |
|---------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------|
| <p><b>VALUE PROPOSITIONS</b></p>   | <p><b>CUSTOMER RELATIONSHIPS</b></p>  | <p><b>CUSTOMER SEGMENTS</b></p>  |
|                                                                                                                     | <p><b>CHANNELS</b></p>                |                                                                                                                     |
| <p><b>REVENUE STREAMS</b></p>  |                                                                                                                          |                                                                                                                     |

# 1.4 Types of business models

## SKYPE: THE FREEMIUM MODEL

Now that you know what a blank Business Model Canvas looks like, it's time to see some sample ones before you fill out your own. Each of the presented business models is for a company you've probably heard of, including startups as well as established businesses.

We present 4 different business models here, but many more exist, and even more have yet to be created.

Don't be afraid to experiment with your business model. Just because one business model works for a similar company does not mean it will work for yours. You may end up creating one that will work even better.

|                                                                                                                                                                         |                                                                                                               |                                                                                                                                                          |                                                                                                                                                   |                                                                                                                                                             |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>KEY PARTNERS</b> <ul style="list-style-type: none"><li>• Payment providers</li><li>• Distribution partners</li><li>• Telco providers</li></ul>                       | <b>KEY ACTIVITIES</b> <ul style="list-style-type: none"><li>• Software development</li></ul>                  | <b>VALUE PROPOSITIONS</b> <ul style="list-style-type: none"><li>• Free internet &amp; video calling</li><li>• Cheap calls to phones (SkypeOut)</li></ul> | <b>CUSTOMER RELATIONSHIPS</b> <ul style="list-style-type: none"><li>• Mass consumers</li></ul>                                                    | <b>CUSTOMER SEGMENTS</b> <ul style="list-style-type: none"><li>• Global web users</li><li>• Mobile users</li><li>• People who want to call phones</li></ul> |
|                                                                                                                                                                         | <b>KEY RESOURCES</b> <ul style="list-style-type: none"><li>• Software developers</li><li>• Software</li></ul> |                                                                                                                                                          | <b>CHANNELS</b> <ul style="list-style-type: none"><li>• Skype.com</li><li>• Headset partnerships</li><li>• Skype mobile apps</li></ul>            |                                                                                                                                                             |
| <b>COST STRUCTURE</b> <ul style="list-style-type: none"><li>• Software development</li><li>• Customer service representatives</li><li>• Sales &amp; marketing</li></ul> |                                                                                                               |                                                                                                                                                          | <b>REVENUE STREAMS</b> <ul style="list-style-type: none"><li>• SkypeOut prepaid or subscription</li><li>• Hardware sales</li><li>• Free</li></ul> |                                                                                                                                                             |

## GOOGLE: THE MULTI-SIDED PLATFORM MODEL

| KEY PARTNERS                                                                                                                                             | KEY ACTIVITIES                                                                                          | VALUE PROPOSITIONS                                                                                                                                                                                                                                                               | CUSTOMER RELATIONSHIPS                                                                                                                                                                                                            | CUSTOMER SEGMENTS                                                                                                                                                                                                        |
|----------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
|                                                                                                                                                          | KEY RESOURCES                                                                                           |                                                                                                                                                                                                                                                                                  | CHANNELS                                                                                                                                                                                                                          |                                                                                                                                                                                                                          |
| <ul style="list-style-type: none"> <li>• Distribution partners</li> <li>• Open handset alliance</li> <li>• OEMs</li> </ul>                               | <ul style="list-style-type: none"> <li>• R&amp;D</li> <li>• Manage massive IT infrastructure</li> </ul> | <ul style="list-style-type: none"> <li>• Web search, Gmail, Google+</li> <li>• Google Apps for Business</li> <li>• Adwords</li> <li>• Adsense</li> <li>• Display advertising</li> <li>• Android</li> <li>• Chrome OS</li> <li>• Google Fiber</li> <li>• Google Campus</li> </ul> | <ul style="list-style-type: none"> <li>• Automation</li> <li>• Dedicated sales for large accounts</li> </ul>                                                                                                                      | <ul style="list-style-type: none"> <li>• Internet users</li> <li>• Advertisers and ad agencies</li> <li>• Google Network members</li> <li>• Mobile device owners</li> <li>• Developers</li> <li>• Enterprises</li> </ul> |
| <b>COST STRUCTURE</b> <ul style="list-style-type: none"> <li>• Traffic acquisition costs</li> <li>• Data center operations</li> <li>• R&amp;D</li> </ul> |                                                                                                         | <ul style="list-style-type: none"> <li>• Sales &amp; marketing</li> <li>• General &amp; administrative</li> </ul>                                                                                                                                                                | <b>REVENUE STREAMS</b> <ul style="list-style-type: none"> <li>• Ad revenues from websites</li> <li>• Ad revenues from external</li> <li>• Enterprise product sales</li> <li>• Google Fiber subscribers</li> <li>• Free</li> </ul> |                                                                                                                                                                                                                          |

## SUNEDISON: THE POWER PURCHASING AGREEMENT MODEL

|                                                                                                                                                            |                                                                                                              |                                                                                                                                                                                                                                                    |                                                                                                                                                                    |                                                                                                                                                                     |
|------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>KEY PARTNERS</b> <ul style="list-style-type: none"><li>• Solar panel suppliers</li><li>• Solar panel installation and maintenance contractors</li></ul> | <b>KEY ACTIVITIES</b> <ul style="list-style-type: none"><li>• Install and manage PPA installations</li></ul> | <b>VALUE PROPOSITIONS</b> <ul style="list-style-type: none"><li>• Purchasing power agreements (PPAs) for solar panels</li><li>• Low-risk investment returns</li><li>• Tax incentives and rebates for investors as owners of solar panels</li></ul> | <b>CUSTOMER RELATIONSHIPS</b> <ul style="list-style-type: none"><li>• Automation</li><li>• Dedicated sales for large accounts</li></ul>                            | <b>CUSTOMER SEGMENTS</b> <ul style="list-style-type: none"><li>• Mid- to large organizations and businesses</li><li>• Institutional and private investors</li></ul> |
|                                                                                                                                                            | <b>KEY RESOURCES</b> <ul style="list-style-type: none"><li>• Pool of PPAs to resell</li></ul>                |                                                                                                                                                                                                                                                    | <b>CHANNELS</b> <ul style="list-style-type: none"><li>• Sales team</li></ul>                                                                                       |                                                                                                                                                                     |
| <b>COST STRUCTURE</b> <ul style="list-style-type: none"><li>• Installing and managing PPA installations</li><li>• Acquiring PPAs and investors</li></ul>   |                                                                                                              |                                                                                                                                                                                                                                                    | <b>REVENUE STREAMS</b> <ul style="list-style-type: none"><li>• Development fees for solar panels</li><li>• Monitoring and servicing fee for solar panels</li></ul> |                                                                                                                                                                     |

## NEST: THE LONG TAIL MODEL

|                                                                                                                                                                                                                |                                                                                                                                            |                                                                                                                                                                                                            |                                                                                                                                             |                                                                                                                                                                   |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>KEY PARTNERS</b> <ul style="list-style-type: none"><li>• Nest Pro</li><li>• Google</li><li>• Governments</li><li>• Utilities companies</li><li>• Distributors</li><li>• Home appliance developers</li></ul> | <b>KEY ACTIVITIES</b> <ul style="list-style-type: none"><li>• R&amp;D</li><li>• Production</li></ul>                                       | <b>VALUE PROPOSITIONS</b> <ul style="list-style-type: none"><li>• Nest Learning Thermostat home energy-saving device</li><li>• Nest Smoke &amp; CO Alarm</li><li>• Nest Cam home security device</li></ul> | <b>CUSTOMER RELATIONSHIPS</b> <ul style="list-style-type: none"><li>• Nest Pro</li><li>• Customer support</li></ul>                         | <b>CUSTOMER SEGMENTS</b> <ul style="list-style-type: none"><li>• Family households</li><li>• Owners or renters</li><li>• Technologically advanced users</li></ul> |
|                                                                                                                                                                                                                | <b>KEY RESOURCES</b> <ul style="list-style-type: none"><li>• R&amp;D</li><li>• Employee talent</li><li>• Intellectual properties</li></ul> |                                                                                                                                                                                                            | <b>CHANNELS</b> <ul style="list-style-type: none"><li>• DIY/home improvement stores</li><li>• Online retailers</li><li>• Nest.com</li></ul> |                                                                                                                                                                   |
| <b>COST STRUCTURE</b> <ul style="list-style-type: none"><li>• Manufacturing &amp; distribution</li><li>• Sales &amp; marketing</li><li>• R&amp;D</li></ul>                                                     |                                                                                                                                            |                                                                                                                                                                                                            | <b>REVENUE STREAMS</b> <ul style="list-style-type: none"><li>• In-store sales</li><li>• Online sales</li><li>• Google</li></ul>             |                                                                                                                                                                   |

# 1.5 Make your own business model

It's time to put everything you've learned so far to use!

You'll get to fill out your own Business Model Canvas on the next page. To help guide you, the canvas to the right provides the key questions you should answer when filling out your own Business Model Canvas.

|                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>KEY PARTNERS</b> </p> <ul style="list-style-type: none"> <li>• Who are our key partners?</li> <li>• Who are our key suppliers?</li> <li>• Which key resources are we acquiring from our partners?</li> <li>• Which key activities do our partners perform?</li> </ul> | <p><b>KEY ACTIVITIES</b> </p> <ul style="list-style-type: none"> <li>• What key activities do our value propositions require?</li> <li>• Our distribution channels?</li> <li>• Customer relationships?</li> <li>• Revenue streams?</li> </ul> <p><b>KEY RESOURCES</b> </p> <ul style="list-style-type: none"> <li>• What key resources do our value propositions require?</li> <li>• Our distribution channels?</li> <li>• Customer relationships?</li> <li>• Revenue streams?</li> </ul> |
| <p><b>COST STRUCTURE</b> </p> <ul style="list-style-type: none"> <li>• What are the most important costs tied to our business model?</li> <li>• Which key resources are most expensive?</li> <li>• Which key activities are most expensive?</li> </ul>                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |

Source: [www.businessmodelgeneration.com/canvas](http://www.businessmodelgeneration.com/canvas). Canvas concept developed by Alexander Osterwalder and Yves Pigneur.

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>VALUE PROPOSITIONS</b> </p> <ul style="list-style-type: none"> <li>• What value do we deliver to the customer?</li> <li>• Which one of our customers' problems are we helping to solve?</li> <li>• What bundles of products and services are we offering to each segment?</li> <li>• Which customer needs are we satisfying?</li> <li>• What is the minimum viable product?</li> </ul> | <p><b>CUSTOMER RELATIONSHIPS</b> </p> <ul style="list-style-type: none"> <li>• How do we get, keep, and grow customers?</li> <li>• Which customer relationships do we have?</li> <li>• How costly are they?</li> </ul> <p><b>CHANNELS</b> </p> <ul style="list-style-type: none"> <li>• Which channels reach our customer segment?</li> <li>• How do other companies reach them?</li> <li>• Which ones work best?</li> </ul> | <p><b>CUSTOMER SEGMENTS</b> </p> <ul style="list-style-type: none"> <li>• For whom are we creating value?</li> <li>• Who are our most important customers?</li> <li>• What are the customer profiles?</li> <li>• Are there other customer segments we could be reaching?</li> </ul> |
| <p><b>REVENUE STREAMS</b> </p> <ul style="list-style-type: none"> <li>• For what value are our customers really willing to pay?</li> <li>• For what do they currently pay?</li> <li>• What is the revenue model and the pricing tactics?</li> </ul>                                                                                                                                      |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    |                                                                                                                                                                                                                                                                                                                                                                        |

## Exercise 13: Make your own business model

Using the guidelines on the previous page, create your own business model for your startup on this page.

You can also download and print out a blank Business Model Canvas from the Strategyzer website:

[businessmodelgeneration.com/canvas/bmc](https://businessmodelgeneration.com/canvas/bmc)

|                                                                                                                |                                                                                                              |
|----------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------|
| <b>KEY PARTNERS</b><br>     | <b>KEY ACTIVITIES</b><br> |
|                                                                                                                | <b>KEY RESOURCES</b><br>  |
| <b>COST STRUCTURE</b><br> |                                                                                                              |

|                                                                                                                 |                                                                                                                      |                                                                                                                 |
|-----------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|
| <b>VALUE PROPOSITIONS</b><br>  | <b>CUSTOMER RELATIONSHIPS</b><br> | <b>CUSTOMER SEGMENTS</b><br> |
|                                                                                                                 | <b>CHANNELS</b><br>               |                                                                                                                 |
| <b>REVENUE STREAMS</b><br> |                                                                                                                      |                                                                                                                 |

# 1.6 Test (and change) your business model

We hope you're now starting to realize that creating a successful business is simple but not easy. To be successful and to avoid ending up like the 90% of startups that fail, you need to understand and follow three simple principles:

1. People only buy things they **need**. So, you first need to figure out what people need that they aren't getting.
2. The main reason startups fail is because they spend their time and money perfecting and trying to sell a solution that no one actually needs.
3. As a startup, the **only** thing you need to do is learn what people need and create something that's better than what they're currently buying. **Doing anything else is a waste of time and money.**

This section will teach you how to test your theories as quickly and cheaply as possible, so that you can successfully make the transition from startup to business. This is the philosophy behind the book *The Lean Startup* and what is now called **lean methodology**.

***Lean Thinking** is a methodology for improving cycle times and quality through the elimination of waste.*

***Lean Startup** is the application of lean thinking to the process of innovation.*

*"Startups are in a life-or-death struggle to learn how to build a sustainable business before they run out of resources and die." —Eric Ries*

There are 5 principles of *The Lean Startup*:

1. Entrepreneurs are everywhere
2. Entrepreneurship is management
3. Validated learning
4. Build-measure-learn
5. Innovation accounting

We will explore some of these principles in the following pages and exercises.

## Exercise 14: Creating a hypothesis

If you've ever done a science project in primary school, you're probably familiar with the scientific concept of a hypothesis. Luckily, the basic principles are the same, even though you (probably) won't be building a plastic volcano to prove your findings.

This is the most basic format of a hypothesis:

**I believe** [customer segment] **will** [buy/use this solution] **for** [this reason—why your solution is better than existing solutions/how it solves the customer's problem].

**Use this format to write your own:**

I believe \_\_\_\_\_ will \_\_\_\_\_  
for \_\_\_\_\_.

Make sure your hypothesis meets the following criteria to be valid:

1. It has to be testable, which means it can be passed or failed (validated or invalidated) by an experiment.
2. It has to give you a better understanding of your customer's problem or your solution.
3. Each hypothesis should only test one thing at a time. For example, if you want to test if your price is attractive to the customer, offer the exact same product at two different prices, not different products at different prices.

Don't start testing your hypothesis until you know what you are measuring and how you plan to measure it (your metrics)! A metric should describe the #1 thing that will tell you if your experiment has failed or succeeded (such as number of sales in a defined time period).

# Making your startup lean

Once you have a set of customers and a business model to test, you begin the testing process:

1. Discover the customer's needs, wants and pains (problem), and how important they are for them
2. Show the customer a prototype version of your solution (MVP) and measure their reaction
3. Record and repeat

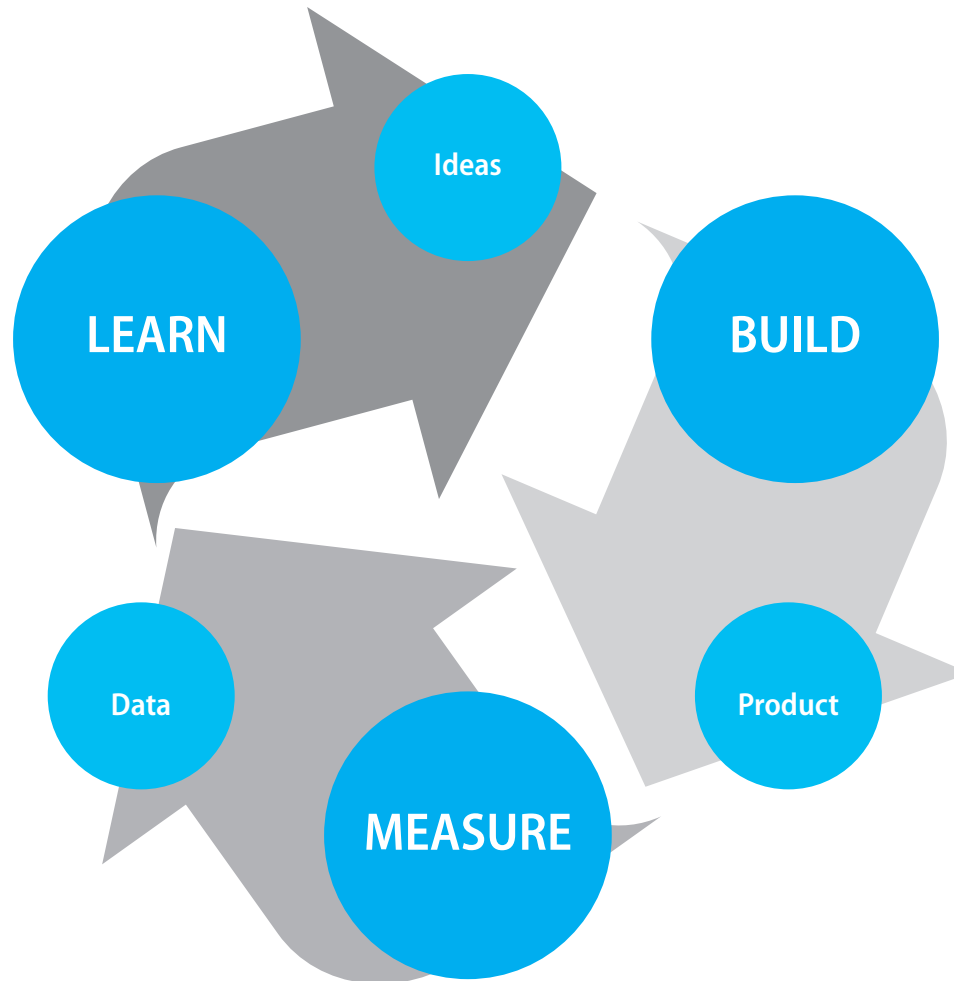
The goal of your early contact with potential customers is to create a profile of your customers and their problems. However, this profile is still a theory until it has been tested over and over.

*"The goal of every startup experiment is to discover how to build a sustainable business around your vision."* —Eric Ries

## IMPORTANT

At this point, failure is normal and expected. You will get many parts of your hypotheses wrong: who your customers are, what problems they have, what features of your solution will solve those problems, how much customers are willing to pay for those features, and so on. This is a normal part of the process. As you learn, you adjust your theories and test again—until you are less wrong than when you started.

This is where the idea of the **Build-Measure-Learn Feedback Loop** comes in, which is the core idea of lean startup methodology. This is what the loop looks like:



## BUILD

Build a minimal version of your solution to test

## MEASURE

Measure customer reactions to your solution

## LEARN

After each test, review all of the data and information you received to identify what to test next

When planning your build-measure-learn cycle, you actually start in reverse—by determining what you want to learn. At the start, this should be your most important hypothesis, such as “Will people actually pay for my solution?” or “Does this customer segment actually have the problem I think they do?”

Then you determine how you will measure the results of your experiment (metrics) and, finally, you build your experiment, most likely in the form of a Minimum Viable Product (MVP). As a startup, you want to get through the build-measure-learn cycle using as little time and money as necessary.

Each time you get through the build-measure-learn loop, you go through one **iteration** of your solution. If your first MVP fails, you learn from that failure and build the next one to test—and repeat this process until you are successful. The system used to measure a startup’s progress is

called “**innovation accounting**” in lean methodology.

A startup is too unpredictable to be measured by traditional accounting methods such as revenue. Instead, as Eric Ries explains, “Learning is the essential unit of progress for startups.” But how do you measure learning?

Through the innovation accounting process:

1. Use an MVP to test the current state of the startup
2. Learn from the MVP, iterate, and move towards success
3. Pivot or proceed

In the next part, you will learn about MVPs, create your own, and find out how to determine if you should change your business model or continue.

*“It does not matter how fast we can build. It does not matter how fast we can measure. What matters is how fast we can get through the entire loop.”—Eric Ries*

## Exercise 15: Creating experiments

Now that you have a hypothesis, you need to design an experiment to test each hypothesis. Just like a hypothesis should only test one thing at a time, each experiment should test one hypothesis. The format of an experiment is similar as well:

**I will** [do action] **until** [description of when you will stop]. **The experiment will be successful if** [the metric that must be met for success], **otherwise it will be a failure.**

**Use this format to write your own:**

I will \_\_\_\_\_ until \_\_\_\_\_.

The experiment will be successful if \_\_\_\_\_  
\_\_\_\_\_, otherwise it will be a failure.

Here is an example experiment to get you started:

*"I will call new homeowners in my target market until I have spoken to 50 homeowners and pitched my MVP to them. The experiment will be successful if 10% or more of the homeowners sign up for my service and pay the initial fee, otherwise it will be a failure."*

Each experiment you run should meet the following criteria:

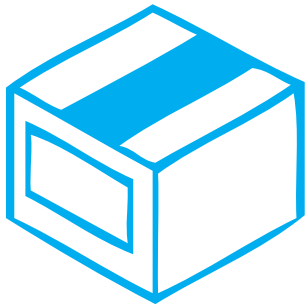
1. It only measures one metric, which is clearly stated.
2. It can be completed in 1-10 days.
3. It targets the customer segment you are focused on.
4. It results in real, actionable data.

After you have completed each experiment, you will review all of the data you received and use it to decide what to test next.

# The minimum viable product

As an entrepreneur, it's hard to resist the urge to make the best version of your product before you show it to customers—but it's an urge you must resist to be successful. Otherwise, you'll spend unnecessary time and money building something that might be perfect, but that nobody wants to buy.

This is why it's so important to first build the minimum viable version of your solution.



## MINIMUM

- Only has the essential features
- Focus on function, not design or how it looks
- Only has the features that you want to test

## VIABLE

- Works well enough to demonstrate the basic features of the solution to customers
- Gives customers an idea of what to expect from the full product
  - Can be sold to customers

## PRODUCT

- A basic version of your solution
- Can differ greatly from what you will sell in the future
  - Designed to be good enough, not perfect

*“A minimum viable product (MVP) helps entrepreneurs start the process of learning as quickly as possible.”—Eric Ries*

An MVP is different from a prototype that tests the mechanical or software properties of a product. You don't build an MVP to see if your technology works—you build it to test if customers want your solution before you build the technology.

It's also important to select the right customers to test your MVP. The ideal set of customers are the early adopters we described in [Section 1.1](#). They are more eager for a solution, so they will be more forgiving if the product you present is not perfect.

## Here are some examples of MVPs:

### Sales script

- Used for phone or face-to-face pitches of your solution
- Example: a script you follow that describes your solution to potential customers and asks them to sign up or pay

### Landing page

- A website used to describe your solution and gather email addresses or payments of early customers
- Example: A website that describes your solution and offers pre-orders

### Concierge or offline version

- Performing a service in person that will eventually be automated or done online
- Example: A founder buys and delivers groceries to initial customers for a future automated grocery delivery service

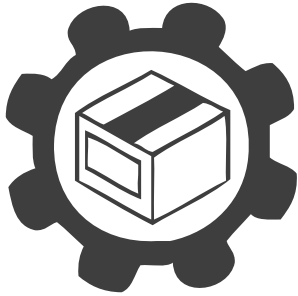
### Prototype

- A simple physical version of a product that does its most basic functions
- Example: A 3D-printed version of your product that customers can interact with

### Crowdfunding campaign

- A campaign on a crowdfunding site such as Kickstarter or Indiegogo that allows customers to pre-order and pay for your solution
- Example: A Kickstarter campaign that collects money for the mass manufacture of your product

## Exercise 16: Create your MVP



In previous exercises, you brainstormed, chose, researched, and validated a problem you would like to solve. In this exercise, we'll be working on a solution to that problem.

**Once again, you will use a timer and write down all of the answers you can think of for each question in 2 minutes. Use a notebook if you run out of space.**

1. What is an existing solution to your problem that you would like to make a better version of?

2. What is your favorite competitive product?

3. How can you improve this product?

4. What is your ideal solution to your problem?

5. What is the simplest version of that solution that you could ask people to pay you for?

Now, look at your answers on the previous page.

**Taking no more than 2 minutes, decide which is your favorite solution to your problem, and write it here:**

---

---

---

---

---

You will use this answer to create the most basic version of your solution—your MVP.

The first MVP you should start with is a basic script you can use for email, calling, or in-person conversations with potential customers. It should provide a detailed description of what your solution does (even if it doesn't exist yet) and how it solves the customer's problem.

Use this simple structure as a guide, but feel free to add or change elements:

1. Ask your customer a question about their problem.
2. Describe an ideal world where the customer no longer has that problem—thanks to your solution.
3. Describe what your solution does and how it works, but don't be too technical. Instead, focus on how it solves the customer's problem, not how it works.
4. Ask your customer if he or she would like to pre-order your solution.
5. Remind your customer of the benefits of having your solution.
6. Give the customer a good reason to take action now—create a sense of urgency. The faster the customer says yes or no, the faster you will validate your theory.
7. (Optional) Eliminate risk. Explain that this is a pre-sale, and you will return 100% of their money if they are not happy with the solution.

## USE THIS SPACE TO WRITE YOUR MVP SCRIPT:

The most important thing you can do now is ***get out of the building*** and go talk to your future customers! Use the same version of the script each time to test it, and be sure to ask for money—customers willing to pay money for your solution are the surest sign you have a viable solution.

Don't even think about creating another version of your MVP until you have talked to enough people who are willing to pay for your solution to validate your theories. Remember, you first want to make sure your customers want your solution before you spend time and money building it, so go talk to them!

## Pivot or proceed?

At some point, every entrepreneur is faced with a major decision: “Do we continue with what we’re doing, or do we make a major change in our business model?”

This decision usually comes after running many experiments designed to test each part of the business model, gathering customer feedback, building several MVPs, and going through the build-measure-learn loop several times.

A fundamental change is called a **pivot**. Here is the definition from Steve Blank:

*“A **pivot** is a major change to one of the nine business model hypotheses based on learning from customer feedback.”*

How do you decide whether or not to pivot? First, look at your data—your **metrics**.

If you have been running experiments, you should have clear results (metrics) that show which hypotheses failed and which proved true. However, you need to make sure you’re using **actionable metrics**, not **vanity metrics**. The difference between the two is shown on the next page.

Why should you use actionable metrics? So you can figure out if your experiment was successful and you should continue what you were doing, or if it failed and you should keep looking for a better way. **Keeping accurate metrics is the only way to move closer to your goal: building the solution the customer wants.**



*“The fundamental activity of a startup is to turn ideas into products, measure how customers respond, and then learn whether to pivot or persevere.” —Eric Ries*

## VANITY METRICS VS ACTIONABLE METRICS

### Characteristics of vanity metrics:

- Don't clearly show cause and effect
- Not directly related to your business model
- Hard to understand
- Do not specify a clear action to take
- Make you feel good about yourself

### Types of vanity metrics:

- Number of hits
- Number of page views
- Number of visits
- Number of unique visitors
- Number of followers/likes
- Time on site
- Number of emails collected
- Number of downloads

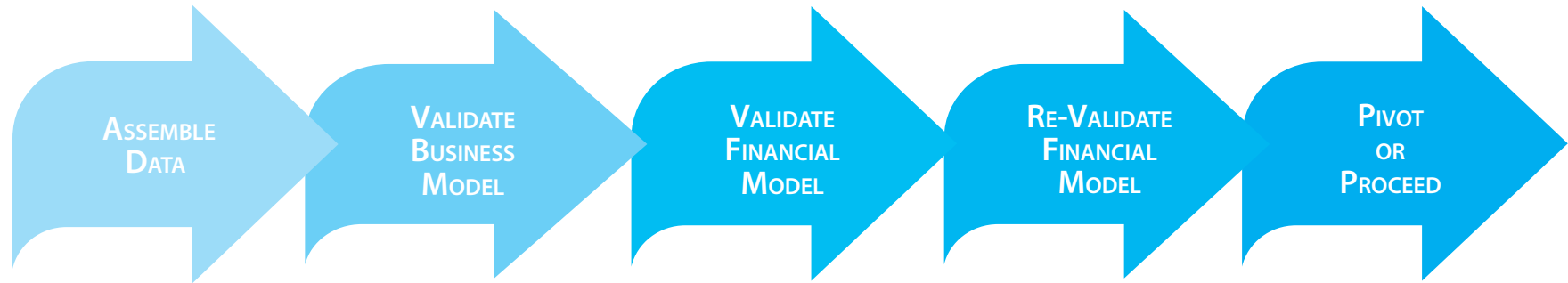
### Characteristics of actionable metrics:

- Demonstrate clear cause and effect
- Related to specific and repeatable tasks you can improve
- Accessible—can be understood by anyone in the company
- Allow you to take action immediately
- Tell you the truth about your business

### Types of actionable metrics:

- Results of split (A/B) tests
- Per-customer metrics
- Keyword (SEM/SEO) metrics
- Conversion rate
- Customer satisfaction
- Retention length
- Churn rate
- Revenue per customer
- Costs of products sold

Once you've run experiments and have your data in front of you, it's time to determine if you should keep going (proceed) or change direction (pivot). Often, this is the most important decision for a startup founder. There are 5 steps to help you make this decision:



**Assemble all of the data from:**

- reports
- surveys
- maps
- diagrams

**Determine:**

- if the current business model allows you to acquire enough customers at a rate to cover acquisition costs
- if you are retaining customers
- if current customers are referring enough new customers to lower acquisition costs

**Determine:**

- if the revenues being generated are enough to cover costs at a larger scale
- if the startup can become a profitable, scalable business before it runs out of money

**Determine:**

- if your current business model is the best possible business model
- if, even if your current model is profitable, a different model could be more profitable

**Determine:**

- if you should execute the current business model, or
- if you should change one element of the business model and return to testing

If your data shows you need to pivot, you then need to determine what type of pivot will lead to the success of your startup. There are several different types.

### Types of pivots:

- **Zoom-in Pivot:** When a single feature of a product becomes the whole product
- **Zoom-out Pivot:** When the main feature of a product becomes one of many features of the product
- **Customer Segment Pivot:** When the target customer segment changes from the original one planned
- **Customer Need Pivot:** When you realize the problem you are trying to solve is not the most important problem for your customer segment, and you change to that new problem
- **Platform Pivot:** When you change from an application to a platform or from a platform to an application
- **Business Architecture Pivot:** When you change from a high-margin, low-volume model to a low-margin, high-volume model or vice versa
- **Value Capture Pivot:** When you change monetization or revenue models
- **Engine of Growth Pivot:** When you switch between viral, sticky, or paid growth models
- **Channel Pivot:** When you make a change in your sales or distribution model
- **Technology Pivot:** When you decide to provide the same solution using a different technology

*“Instagram pivoted! Chatroulette pivoted! We’re gonna pivot!”—from the HBO show Silicon Valley*

Not every startup has to pivot, however. In some cases, the data will show that everything is going well with the startup and your experiments will be validated. The final chapter of [Section 1](#) will guide you through the process of proceeding—going from startup to business once you have found a successful business model.

You will know you are ready to proceed when you can answer “yes” to the first 3 questions below and “no” to the last one:

1. Does the startup identify a problem that customers have and need to be solved?
2. Does the solution proposed by the startup solve this problem?
3. Is the business model for distributing the solution viable and profitable?
4. Are there any theories left to be tested?



## READ MORE

### More on types of pivots:

*The Startup Owner's Manual*, Ch.11

*The Lean Startup*, Ch. 8

## Exercise 17: Pivot or proceed?

You've built several MVPs, tested tons of hypotheses, and have come to a critical point in the life of your startup: do you change a major element of your business model (pivot) or start executing your business model (proceed)?

This exercise will help you determine if you should pivot.

For each question below, answer with a value from 1-10 (10 = yes, I really agree, 1 = no, I really disagree).

1. Has customer discovery confirmed that your chosen customer segment has the problem? \_\_\_\_\_
2. Are there any competitors currently making money selling a solution to this problem? \_\_\_\_\_
3. Is the latest MVP of your solution to this problem better than those that are currently available? \_\_\_\_\_
4. Has the number of customers grown steadily? \_\_\_\_\_
5. Is it clear that customers will continue to arrive at a steady, predictable, profitable pace? \_\_\_\_\_
6. Are you currently getting enough revenue to cover your costs? \_\_\_\_\_
7. Have you tested every part of your business model successfully? \_\_\_\_\_

Add up all the points, and write your total score here: \_\_\_\_\_

The higher your score, the higher your chances of being on the right track. However, before deciding to pivot you should still go over all of the steps on page 90.

### EXERCISE

## RESULTS:

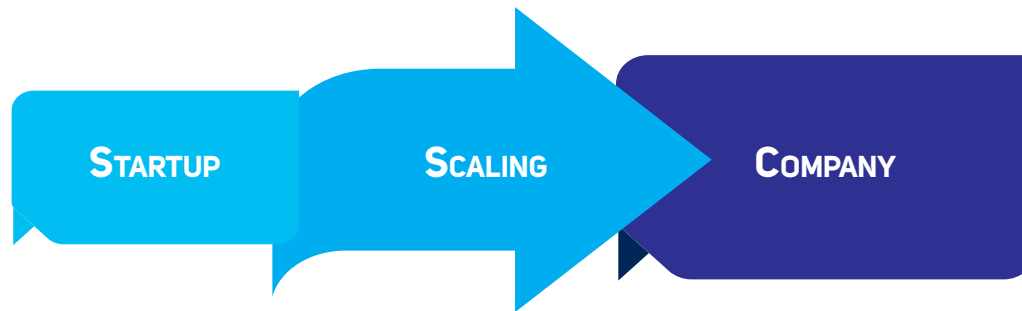
<30 – you should probably pivot  
30-50 – your course is unclear and you need to run more tests  
>50 – you should probably proceed

# 1.7 From startup to business: Plan for the future now

If you've made it this far in your startup journey, you're probably on the right path to success. But what happens when you get there? How do you go from startup to company, and what are the differences?

## THE SEARCH FOR THE BUSINESS MODEL

## THE EXECUTION OF THE BUSINESS MODEL



- Business model found
- Product/market fit
- Repeatable sales model
- Managers hired

- Cash-flow break-even
- Profitable
- Rapid scale
- New senior management
- ~150 people

*“As a founder, your first job is to get the first things right, because you cannot build a great company on a flawed foundation.” —Peter Thiel*

Once you have found a business model that works, you enter the scaling phase between a startup and a company. This is often a period of rapid expansion, both in terms of people (hiring new employees) and market (moving from early adopters to mainstream customers).

In the scaling phase of a startup, you're switching from evaluating your progress based on how much you learn to evaluating your progress based on how much you earn. At this point, if your startup had been funded by investors, you need to start returning that investment in the form of profits.

Once you've found a successful business model, you're no longer searching—you're executing the business model. It's only

once you've entered execution mode that you should begin hiring project managers, sales, marketing, and business development teams.

*Your goal during this time is to achieve **sustainable growth**, which is characterized by one simple rule: “New customers come from the actions of past customers.”*

There are several aspects of growth you will need to consider. We'll just say a few words here, but once you're ready to scale, you should read the books and chapters recommended in the Read More box at the end.

*"The engine of growth is the mechanism that startups use to achieve sustainable growth."*

—Eric Ries

## Types of growth

To go from startup to company, your business must scale and grow. To do this, there are several growth models startups can adopt:

1. **Sticky:** growth relies on high customer retention. Hold on to existing customers while adding new ones.
2. **Viral:** growth requires existing customers to get their friends to join. Each new customer results in at least one or more additional customer.
3. **Paid:** growth relies on paid advertising and marketing. The money for advertising and marketing comes from current sales.

Startups should focus on developing only one growth model at a time. As they grow into companies, they can experiment with additional ones.

*"Everyone at your company should be different in the same way—a tribe of like-minded people fiercely devoted to the company's mission."*

—Peter Thiel

## Building your team

When it's time to hire new people, keep these tips in mind:

1. Never outsource hiring at the beginning. Your core team should be interviewed and hired only by the founder(s).
2. You will potentially spend 8+ hours per day with your team for the next few years. Make sure that in addition to their having the right skills, you get along on a personal level with the people you hire.
3. You don't have to hire your friends, but you should be able to become friends with your hires.
4. Hire people who are excited about your company and understand your vision.
5. It's better to hire someone who learns quickly than someone who already has the skills but is set in their ways. A startup needs people who can learn and adapt to rapidly changing conditions.
6. If you can, hire people who already have experience and connections in the industry you're in.

*“As startups grow, entrepreneurs can build organizations that learn how to balance the needs of existing customers with the challenges of finding new customers to serve, managing existing lines of business, and exploring new business models—all at the same time.”—Eric Ries*

## Expanding into new markets

When you’re starting out, your target customer segment is early adopters or a similar niche of people who really need your solution. Eventually, however, you’ll run out of these people—hopefully, after you’ve already begun to expand to a larger market.

To be successful, your business model needs to be **scalable** and **repeatable**. That means you can replicate your success with early customers in new customer segments, each one bigger than the one before.

Your company’s growth must also be **sustainable**—driven by previous customers, not just sales or marketing efforts. There are four ways current customers lead to new customers:

1. Word of mouth (customers telling their friends)
2. As a side effect of using the solution (i.e. a website that requires users to sign up before interacting with existing users)
3. Funded advertising (advertising paid for from existing revenue, not investors’ money)
4. Repeat purchase or use (i.e. monthly subscription fees)

*“There are no sales, marketing, or business development departments when you are searching for a business model.”  
—The Startup Owner’s Manual*

## Sales and marketing

As a startup, you don’t need a sales or marketing department. When you’re searching for initial customers, you’re the salesperson (and marketer, and CEO, and sometimes CTO). You should be able to sell the idea of your startup to anyone (which we will help you do in **Section 3**). Most likely, you also don’t have the money to hire sales or marketing people while you’re still searching for a business model—and even if you do, that money would be better spent on building and testing MVPs.

However, once you have a large share of a small market, you can begin to expand into a larger market. This is the job of your new sales and marketing departments: finding customers in need of your solution and selling it to them.

*“No longer can a successful startup expect to have years after its initial public offering to bask in market-leading success. Today successful companies face immediate pressure from new competitors, fast followers, and scrappy startups.”—Eric Ries*

## From a lean startup to a lean business

Just because your company is no longer a startup does not mean that the principles of lean methodology no longer apply. In fact, many larger companies owe their success to adopting lean principles.

You want your startup to become an **adaptive organization**: one that is not stuck to a rigid business plan and adjusts its business model if conditions change. Above all, a company must invest in staying innovative—because you never know when a new startup will come along and disrupt your success.



### READ MORE

#### More on growth:

*The Lean Startup*, Part 3: Accelerate  
Value Proposition Design, Chapter 4,  
Evolve  
*Zero to One*, Chapter 5

*“You need three things to create a successful startup: to start with good people, to make something customers actually want, and to spend as little money as possible. Most startups that fail do it because they fail at one of these. A startup that does all three will probably succeed.”—Paul Graham*



# FUNDING YOUR BUSINESS

Think like an investor and fund your business



# 2.0 Introduction:

## Building a business case for funding

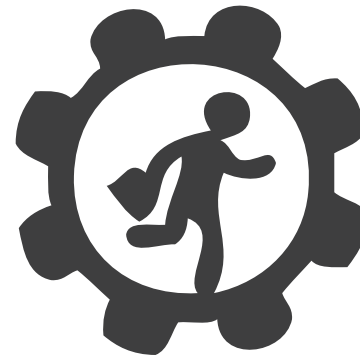
---

### FUNDING 102

If you've read the first section and completed the exercises, you should now be thinking like an entrepreneur. Unfortunately, that's not enough to be successful in business. This section will teach you to think like an investor as well.

What's the difference? An entrepreneur focuses on their solution, their customers, their market. An investor thinks about all of the solutions available on the market and all of the potential customer segments. Learning to think like an investor will teach you to think about the bigger picture.

More importantly, it will teach you what investors look for in companies they fund—and increase your chances of getting funded.



*"If you come in with a theory, and a plan and no data, and you're 1 of the next 1000, it's going to be far, far harder to raise money."* –Marc Andreessen

## THINKING LIKE AN ENTREPRENEUR

- Seeks out opportunities for solutions
- Customer-oriented
- Excited about product
- Wants company to make impact
- Expert in niche field
- Comfortable with risk
- Thinks in days and months
- Thinks about future of company
- Flexible and adaptable
- Uses network to find customers
- Can be satisfied with covering costs
- Satisfied with growth and traction

VS

## THINKING LIKE AN INVESTOR

- Seeks opportunities for maximized returns
- Market-oriented
- Excited about market opportunity
- Wants company to make money
- Expert in industry
- Seeks to reduce risk
- Thinks in years
- Thinks about future of industry
- Stable and growth-oriented
- Uses network to find investments
- Only satisfied with huge payouts
- Satisfied with market leader in large market

## KEY TERMS

**Angel Investor:** An individual who provides a small amount of capital to a startup for a stake in the company.

**Bootstrap:** Funding a company using an entrepreneur's personal resources or the company's own revenue. From the phrase "pulling oneself up by one's bootstraps."

**ROI:** Return on investment. The money investors get back as a percentage of the money they invested in a venture.

**Round:** Startups raise capital from VC firms in individual rounds, depending on the stage of the company.

**Term sheet:** A non-binding agreement that outlines the major aspects of an investment to be made in a company.

**Valuation:** The process by which a company's worth or value is determined.

**Venture Capital:** money provided by investors to startups and small businesses with perceived long-term growth potential.

# 2.1 Opportunity assessment: Think like an investor

The first section showed you how to create and use a startup to test different business models—but where does the money for this come from?

Some startups, especially those created by one person, can be funded from that person's own money or initial profits—this is called **bootstrapping**. This is fine if your startup is a website you can build yourself on weekends. However, most startups will incur some costs, especially those centered around hardware solutions.

This is where funding comes in—money from family members, individual investors (called **business angels**), or groups of investors (called **venture capital**). If you need money to get through the testing phase of your startup, you'll need to learn how to talk to investors.

To do this, you have to understand that investors have different priorities than you

do. You want your business to generate enough profits to survive and grow. Investors want your business to bring a large return on their investment—to give them back (a lot) more money than they put in.

## Why investors invest

Venture capital firms and business angels give money to startups in exchange for **equity** (part ownership of the business). This type of investing is inherently more risky than a traditional loan of money, but it can be much more rewarding as well.

## The risks

- The startup fails and the investor loses all of their money
- The startup is bought, but for less money than the investor put in
- The startup runs out of money before finding a business model

## The (potential) rewards

- The startup is bought for a far greater amount of money than the investor put in
- The startup goes public and its shares offer a high return on investment

The ideal situation for an investor is for a startup to **exit**—become a publicly traded company on the stock market (**IPO**) or be bought by a larger company (**acquisition**). For example, if an investor gives a startup \$500,000 for 10% equity and that startup is bought by Google for \$10 million, then the investor receives \$1 million—that's a 100% return on investment (ROI). Not bad.

If 90% of startups fail, why do investors take the risk at all? Because often the 10% who succeed bring in a return that's so high it covers the losses of the failed ones. This is the "**10X return**" goal—getting back 10 times as much money as they put in.

## What investors look for—The Four Ms

If you want investors to consider your company, you need to convince them that your startup will not only be one of the 10% that succeeds, but that it will succeed so much it will bring them 10X returns. To do so, it helps to know what qualities investors look for. We call these the **Four Ms**. They are listed here in order of importance:

### 1. MANAGEMENT TEAM

- The startup's **TEAM** is the first thing an investor considers
- Investors look for teams with diverse skills: technical, managerial, experience, etc.
- Having team members with previous experience in successful startups is very important to investors
- An investor will evaluate whether they think the team is able to execute the business model they propose
- Even if the solution and business model are good, if the investor thinks the team can't follow it, he will not invest

### 2. MOMENTUM

- **MOMENTUM** shows that your startup is growing at an increasing speed
- Momentum is also called **traction**
- Indicators of momentum:
  - Viral growth of customers
  - Increasing revenues
  - Increasingly successful iterations of MVPs
  - Positive press coverage of startup
  - Growing team

### 3. MARKET OPPORTUNITY

- To get 10X returns, they want to see that your startup is in a large enough **MARKET** to provide this growth
- Investors want to invest in companies that can dominate a large market
- If your startup is in a market with limited growth, investors will not be interested
- Emphasize how your startup can expand to new or bigger markets if possible
- Investors want to see teams with ambitions of dominating a large market

### 4. MONEY

- Investors want to end up with 20-25% of your company when you exit to ensure they will make enough **MONEY** to cover their investment
- The more risk your startup presents, the larger share investors want in your company
- You need to understand the calculations investors are making when deciding whether to invest in your startup
- Investors will only invest in startups that can provide potentially large returns

# Exercise 18: How an investor sees your startup

## EXERCISE 106



Before you talk to an investor, you need to test how your startup appears to them.

**In this exercise, you will fill out the Four Ms of investing for your startup over the next 4 pages.**

### 1. MANAGEMENT TEAM:

What experience does your team have? Have any members worked in startups before? Have they worked in the industry? What are all of the assets your team members bring to your company?

## 2. MOMENTUM

What momentum does your startup show right now? At what rate have you been acquiring customers? Is the rate growing? At what rate are your revenues increasing? Has each MVP been more successful than the previous one? Has your team grown?

### 3. MARKET OPPORTUNITY

How large is the market for your solution? How many potential customer segments could you target? Can your startup become the market leader in your market? How much competition is there in your market?

#### 4. MONEY

How much of your company are you willing to sell to investors? How many investors will you need to find your business model? How much money do you need to fund your startup for 6 months? For 1 year? How large are the potential returns for investors?

## 2.2 Road test your startup

---

To you, your startup is special. To an investor, your startup is one of many and, statistically, it is very likely to fail. How do you convince an investor (or potential customer, potential employee, your mother, etc.) that your business is worth the risk? By showing them you have thoroughly road tested it.

### **Road test:**

- (1) A test of a vehicle under practical operating conditions on the road.*
- (2) For entrepreneurs, a thorough test of the business idea before building a startup around it.*

A startup road test looks at 7 “**domains**” that characterize attractive opportunities for businesses as well as investors. The seven domains model separates your proposed new startup into four domains that look at the small-scale (micro) and large-scale (macro) aspects of your market and industry, and three that focus on your team.

Why should you road test your startup? Because your potential investors will. They will examine the micro (your business) and macro (all similar businesses) parts of your business model as well as the strengths and weaknesses of your team.

The road test for startups is a concept developed by John Mullins in the book *The New Business Road Test*. The following diagram and the descriptions of the 7 domains come from his book, which we recommend reading before launching your startup.

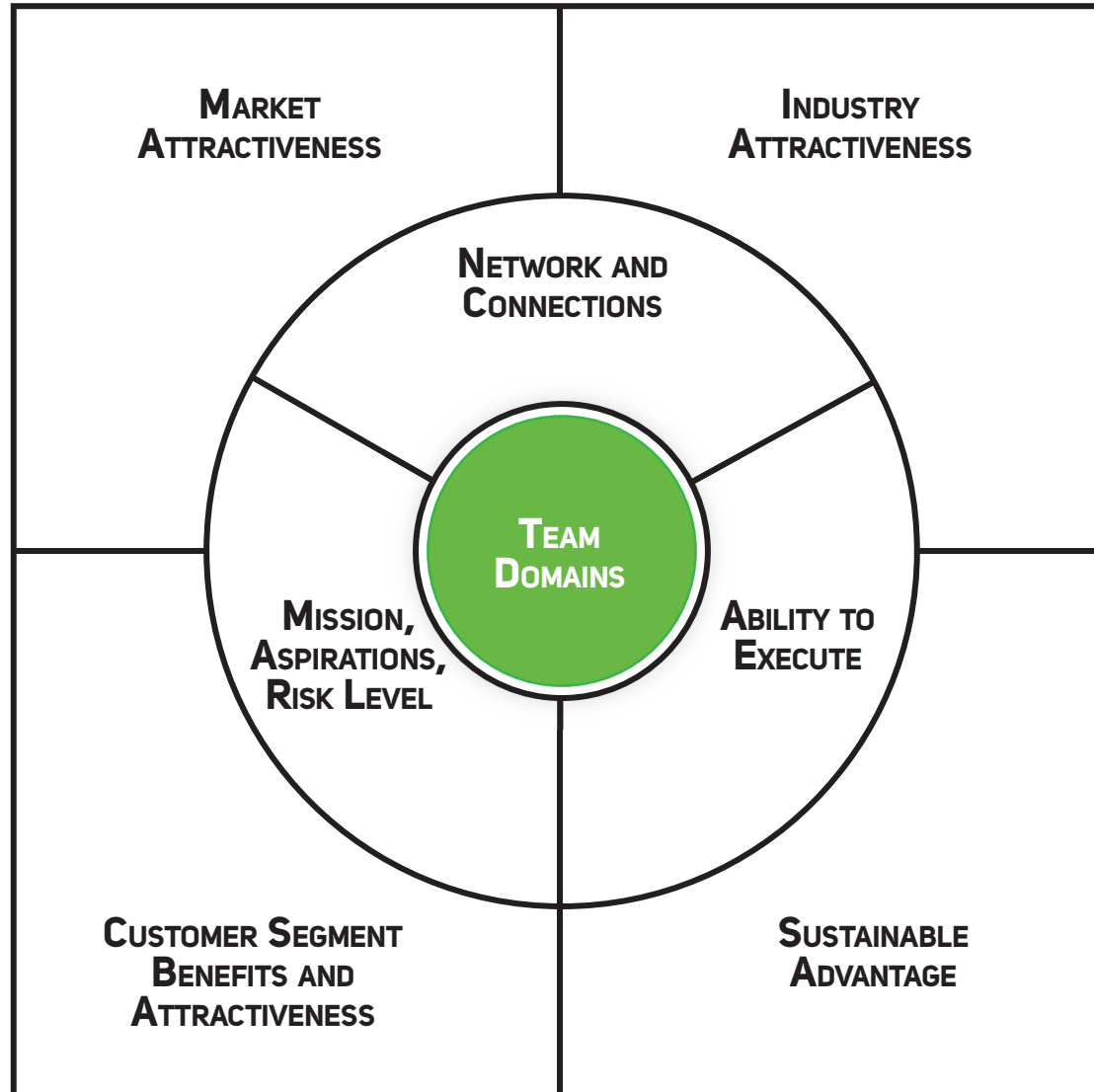
On the following pages, we will examine all of the 7 domains, and you will use your own startup to test each one.

**MARKET DOMAIN**

**INDUSTRY DOMAIN**

**MACRO  
DOMAIN**

**MICRO  
DOMAIN**



# 1. Market attractiveness

This domain looks at **market attractiveness** from a macro (large-scale) perspective. Your market consists of your current customer segment(s) as well as all of the potential ones.

Look at the entire market. How big is it, in terms of the number of customers, the value of sales, and the quantity of units sold? This will require some online research.

Then look at trends within the market. Has it grown in recent years? If so, is this growth likely to continue? You will use your answers to these questions to fill out the box to the right.

When you look at the market, you are checking that the market is big enough to give you the growth you want, and that it's growing steadily—after all, it is much easier to grow a business in an expanding market than it is in a declining one.

You want to also explore the large-scale factors that affect your market. These include: political, economic, socio-cultural, and technological factors. Do these conditions look healthy, or could problems arise from factors that are outside of your control?

Before we go on, it's important to distinguish the difference between a market and an industry:

## MARKET

- Group of current and/or potential customers with the willingness and ability to buy solutions to satisfy a particular category of wants or needs
- A specific customer segment or all of the customer segments targeted by your solution
- People or organizations

VS

## INDUSTRY

- Group of sellers (typically companies or organizations) that offer solutions or classes of solutions that are similar to and close substitutes for one another
- All of the value propositions that solve your customer segment's problem
- Products or services

# Exercise: Market attractiveness

Use this space to write down all of the market attractiveness factors for your solution's market:

## 2. Customer segment benefits and attractiveness

Now it's time to zoom in, from the entire market to your specific **customer segment**.

It's unlikely that your venture will meet the needs of everyone in the market. You will be more successful if you target your idea at one customer segment and aim to meet its needs fully.

To identify this segment, look at the market on a micro level. Think about the following questions:

- Which segment of the overall market is most likely to benefit from your venture?
- How is your venture or product different from others already servicing this segment?
- What trends is this segment showing? Is it growing and, if so, will this growth continue?
- What other market segments could you access if you're successful in this one?

You will use your answers to these questions to fill out the box to the right.

Look for qualitative and quantitative data. Talk to prospective customers to gather feedback on their needs and to find out how well competitors are meeting these. Then, look for data on the sector you're targeting, for example, by reading analysts' reports and market research reports.

# Exercise: Customer segment attractiveness

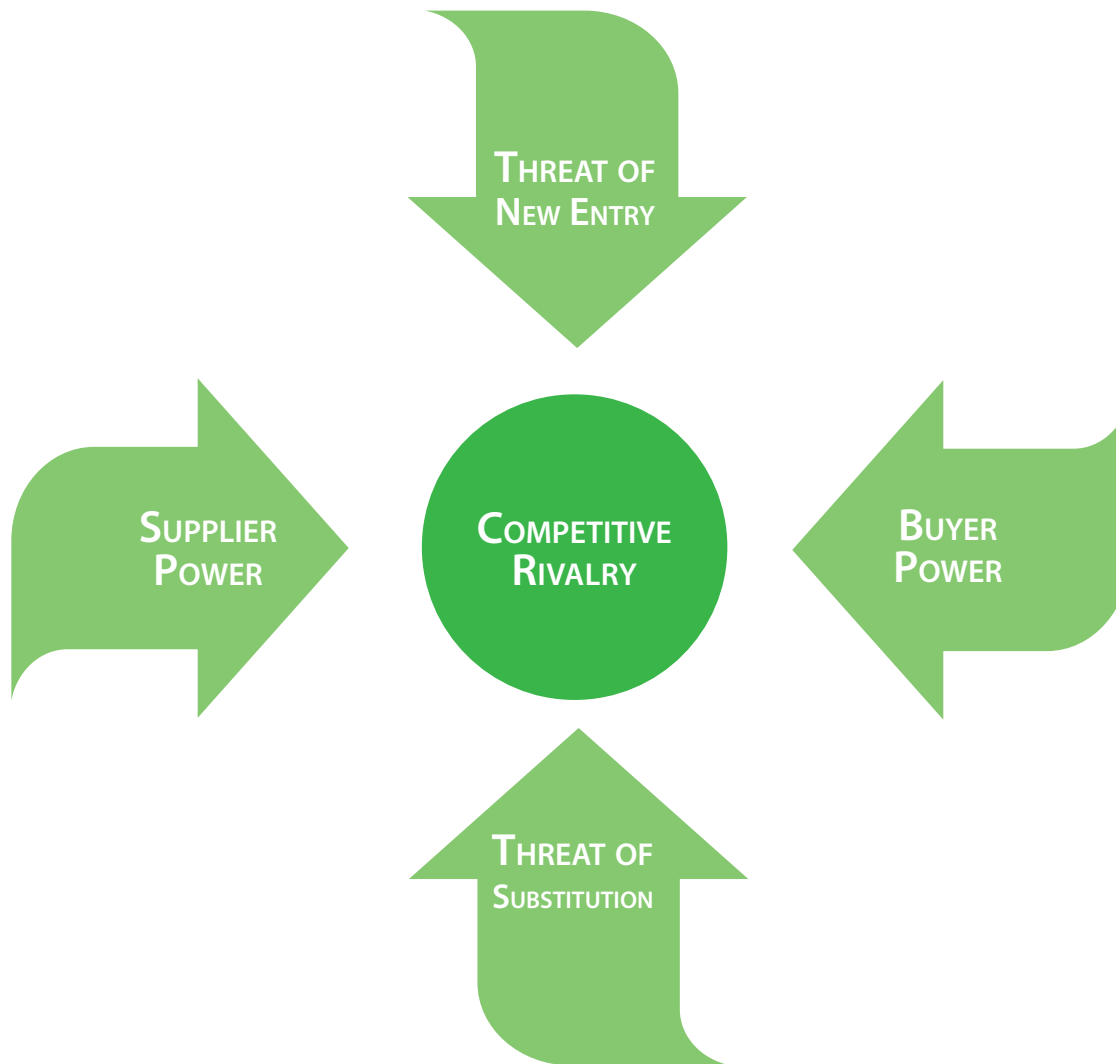
Use this space to write down all of the customer segment attractiveness factors for your solution's market:

# 3. Industry attractiveness

Now it's time to look at how attractive your **industry** is on a macro level.

To do this, author John Mullins suggests using **Porter's Five Forces**, developed by Harvard's Michael E. Porter, to assess which factors affect the profitability of your industry. We've recreated the Five Forces diagram to the right. They include:

1. **Supplier Power**: How easy it is for suppliers to drive up prices? The fewer supplier choices you have and the more you need help from suppliers, the more power they hold.
2. **Buyer Power**: How easy it is for buyers to drive prices down? If you deal with a few, powerful buyers, then they are often able to dictate terms to you.
3. **Competitive Rivalry**: What is the number and capability of your competitors? If no one can do what you do, then you are in a strong position in this area.
4. **Threat of Substitution**: This is affected by the ability of your customers to find a different solution to their problem than the one you are providing. If substitution is easy and viable, this diminishes your power.
5. **Threat of New Entry**: Power is also affected by the ability of other players to enter your market. If you have strong and durable barriers to entry, then you can maintain a favorable position and take advantage of it.



Use the five forces exercise to fill out the boxes on the next page. They will help you define the industry that you will be competing in.

First, look at buyers and suppliers. How much power do they have? Are they setting their own terms and conditions because of this power? If so, how will this affect your offering?

Next, look at your competition. Is rivalry in this market fierce or civilized? Are organizations stealing ideas from others in the industry? Take time to gather intelligence about your potential competitors to see what they're up to.

Finally, ask yourself how easy it is to enter this industry. If it's easy to get into, you can quickly be flooded with competitors if your businesses is seen to have gained success quickly and easily.

# Exercise: Industry attractiveness

---

EXERCISE 118

1. Supplier Power: How easy it is for suppliers to drive up prices? How many suppliers could you potentially work with? How powerful are the suppliers?

2. Buyer Power: How easy it is for buyers to drive prices down? How many buyers could you potentially have? How powerful are the buyers?

**3. Competitive Rivalry:** What is the number and capability of your competitors? Can anyone else do what you do? Could someone do it better?

**4. Threat of Substitution:** How easy is it to find a substitution for your solution? Do similar solutions already exist?

**5. Threat of New Entry:** How easy is it to enter your market? What are some of the barriers to entry?

## 4. Sustainable advantage

Once you've looked at your industry from a macro level, it's time to examine it close up. **Sustainable competitive advantages** are a company's resources, attributes, or abilities that are difficult to duplicate or exceed and provide a superior or favorable long-term position over competitors.

FUNDING 120

Begin by thinking about the unique factors that make your solution hard to replicate by competitors. These may include price, quality of merchandise, range of solutions, website or application user experience, speed of delivery, customer service quality, or proprietary technology.

Then, think of your startup's "core competences": the things that a company can do uniquely well and that no one else can copy quickly enough to affect competition.

Even if you think your product is unique, competitors may think of another way to solve your customers' problem. So you need to think about how easy it would be for your competitors to duplicate your product or service.

Also, what resources do you possess that your competitors don't? Look at the **Key Resources** and **Key Activities** sections of your business model, and then look at your competitors' resources and activities. What do they have that you don't? This could include patents, established processes, and finances. How will these affect your ability to compete?

Write down all of these factors and answers in the following exercise.

# Exercise: Sustainable advantage

Use this space to write down all of the sustainable advantage factors for your solution's industry:

## 5. Team commitment, aspirations, risk level

We've analyzed the micro and macro aspects of your startup's market and industry. Now it's time to move on to the **team**—the founders, employees, and sometimes, the advisors who will all work to build the business.

In this domain, located in the center of the model, you're going to analyze the **commitment**—both yours and that of your team—to the idea you want to build a startup around.

Think about why you want to start this business. Are you passionate about this idea, and, if so, why?

What do you want to do with this business—are you ambitious for it to achieve maximum growth or do you want it to be a “lifestyle business?” In other words, do you want to become the top company in your market and industry, or do you want to build a business that makes just enough money for you to maintain a comfortable lifestyle?

What are your personal goals and values, and how does this venture align with these? And are you prepared to take the risk and put in the hard work needed to build this business?

Explore the motivations of your team. What are they hoping to achieve and why? Do their motivations align with yours? And are they prepared to work really hard to make the business a success?

Money and/or reputations could be at stake if the startup fails, so think about attitudes towards risk within the team. Are your co-founders and employees motivated by hunger for success or a fear of failure?

Write down all of these factors and answers in the following exercise.

# Exercise: Team commitment, aspirations, risk

Use this space to write down all of the factors that affect your team's commitment, their aspirations and their risk propensity:

## 6. Team ability to execute

You can have a brilliant business model and a plan for a solution that can't be duplicated by the competition, but if the team you've assembled can't carry it out, your startup will fail.

That's why it's critical to evaluate your team's **ability to execute** the business model.

Look at the knowledge and skills of the team that you've put together. How certain are you that you and your team can deliver successfully on these factors? If you see a gap in skills or abilities, who can you add to fill this gap? Is your team diverse enough in terms of skills as well as experiences?

Then think about these questions:

- Which decisions or activities will harm the business significantly if you get them wrong, even when everything else is going right?
- Which decisions or activities will deliver disproportionately high benefits or enhance performance, even if other things are not going as they should be?

Write down your answers to these questions in the following exercise.

# Exercise: Team ability to execute

Use this space to list the knowledge and skills of the team that you've put together. As it is, can your team deliver successfully on these factors? Is there anyone you can add? Is your team diverse enough in skills and experience?

Which decisions or activities will harm the business significantly if you get them wrong, even when everything else is going right?

EXERCISE 126

Which decisions or activities will deliver disproportionately high benefits or enhance performance, even if other things are not progressing as they should be?

# 7. Team network and connections

This last domain is all about your startup's **connections** and how important they are to the success of your business. You will look at the **Channels**, **Customer Relationships**, and **Key Partners** parts of your business model, in addition to considering any investors or mentors you may already have on board.

These relationships are important for a startup's growth. The larger the team's network, the more potential customers and early adopters they can target. A startup can also reach out to its network when looking for investors, employees, advisors, or suppliers.

When it comes to connections, it helps having team members with previous startup or industry experience. People who have worked in startups usually have a relationship with investors, and those who have worked in the industry may know valuable potential partners.

First, look at your suppliers. Who do you know that can supply you with the resources you need to pursue this venture? How good are your relationships with these people?

Next, look at your potential customers and distributors. In what ways can you capitalize on your connections here?

Finally, look across the industry. Do you know any of your competitors personally? If so, how could this relationship help or hinder your venture? And could these people become partners if you thought about them differently?

Write down your answers to these questions in the following exercise. Even if your team's network is small now, it's not hard to expand. Attend industry conferences, ask for introductions from members of your current network—and always network, network, network!

# Exercise: Team network and connections

Use this space to write down all of the factors that affect your team's connections to partners, suppliers, distributors, potential customers, and investors.

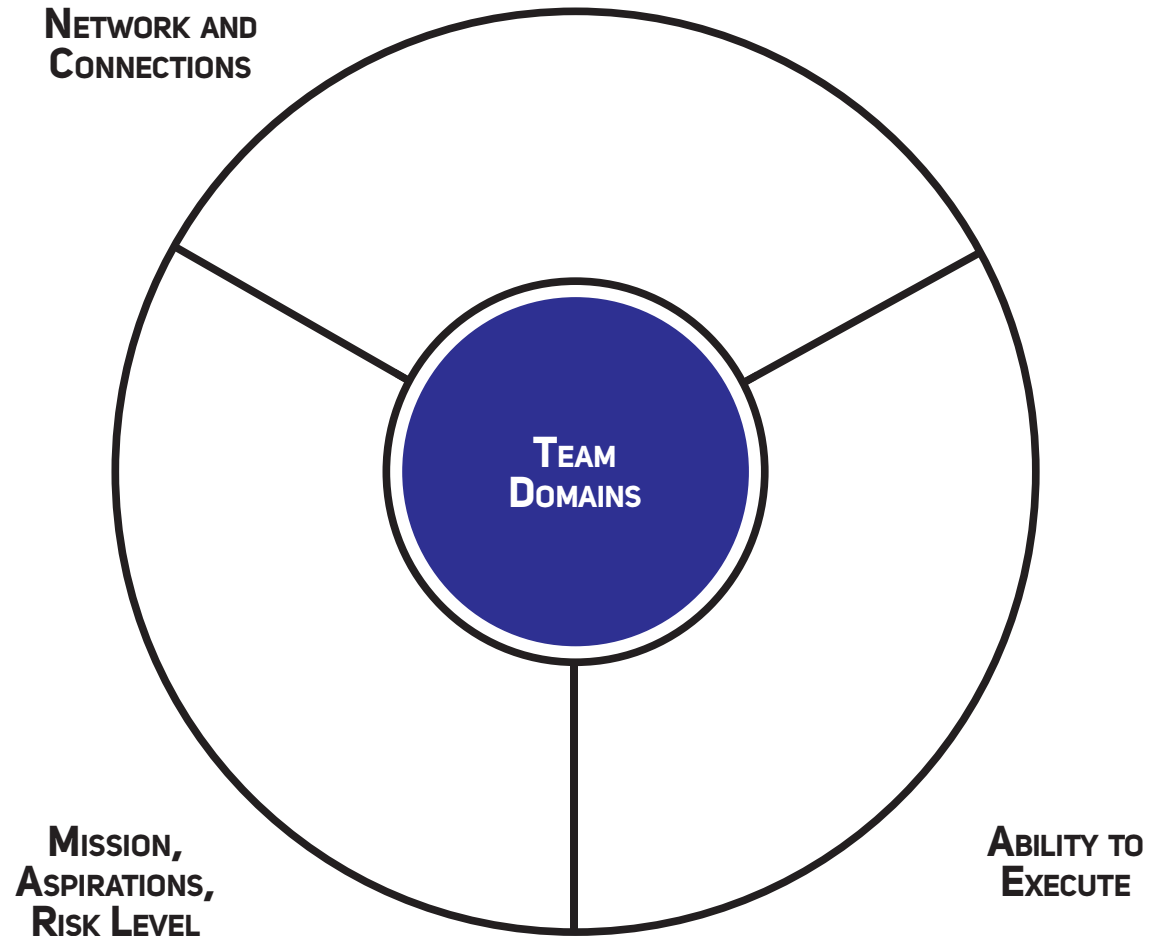
# Exercise 19: Road test your startup

## EXERCISE 130

In each of the previous exercises, you looked at one domain of your startup's market, industry, and team. Now it's time to put it all together and list the most important factors that will determine the success or failure of your idea.

**In each of the domain spaces to the right, write 1-2 sentences that describe each domain as it pertains to your startup.**

This will be the summary you will present to investors to show that you have road tested your startup.



## MARKET DOMAIN

## INDUSTRY DOMAIN

### MACRO DOMAIN

**MARKET ATTRACTIVENESS**

**INDUSTRY ATTRACTIVENESS**

### MICRO DOMAIN

**CUSTOMER SEGMENT  
BENEFITS AND ATTRACTIVENESS**

**SUSTAINABLE ADVANTAGE**

## 2.3 Exploring funding options

---

You've found your customers, built a business model, road tested your startup, and now you are ready to seek funding to get started. This section will provide a very brief overview of the funding options available to startups. There are plenty of books on the topic if you want to know more, some of which are listed in the **Resources** section.

First, let's start with the basics—where can you get money for your business? There are 4 main ways to raise money as a startup, which we list on the next page. Note that most startups will use a combination of several of them.



*"It's almost always harder to raise capital than you thought it would be, and it always takes longer. So plan for that."*—Richard Harroch

# 4 WAYS TO RAISE MONEY FOR YOUR STARTUP:



## Profits

**1. Profits:** If your startup is already running or taking pre-orders, you can use the profits generated to fund the growth and further testing of your business. This is also known as bootstrapping.



## Debt

**2. Debt:** If your startup does not require large amounts of money to start, borrowing from traditional institutions such as banks or lending platforms is possible, though more risky because you have to pay the money back whether you succeed or not.



## Equity

**3. Equity:** Selling equity, or shares of the ownership of your future company, is the typical option for startups. Individuals or groups of investors buy a portion of your company, give you money and often mentorship to start, in the hope that you will succeed and their returns will be much greater than what they put in.



## Donation

**4. Donation:** Donations can come from family or friends, from government institutions, private institutions such as accelerators, or crowdfunding platforms such as Kickstarter. The best part—they don't have to be paid back!

# How venture capital works

**Venture capital** is money provided by investors to startups and small businesses with perceived long-term growth potential. Venture capital can also include managerial and technical expertise. Most venture capital comes from a group of wealthy investors that form venture capital firms, investment banks and other financial institutions that pool investments or partnerships, but it can also come from individuals known as **angel investors**. The downside for entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity.

FUNDING 134



## READ MORE

**More on venture capital and equity:**  
*Zero to One*, Chapter 7  
*Get Backed*, Part Two

## VENTURE CAPITAL

Venture capital firms choose to invest in specific companies in exchange for equity in the company. Venture capitalists typically have a focused market or sector that they know well and invest in.

## ANGEL INVESTOR

Angel investors are affluent individuals who provides capital for a business startup, usually in exchange for convertible debt or ownership equity. Angel investors can also form angel groups or angel networks.

## THE INVESTMENT TIMELINE



## STAGES OF VENTURE CAPITAL



In the fourth phase of the investment timeline, funds are released into the business. The amount of funding and mentorship typically depends on the stage of the company: seed, early, or late.

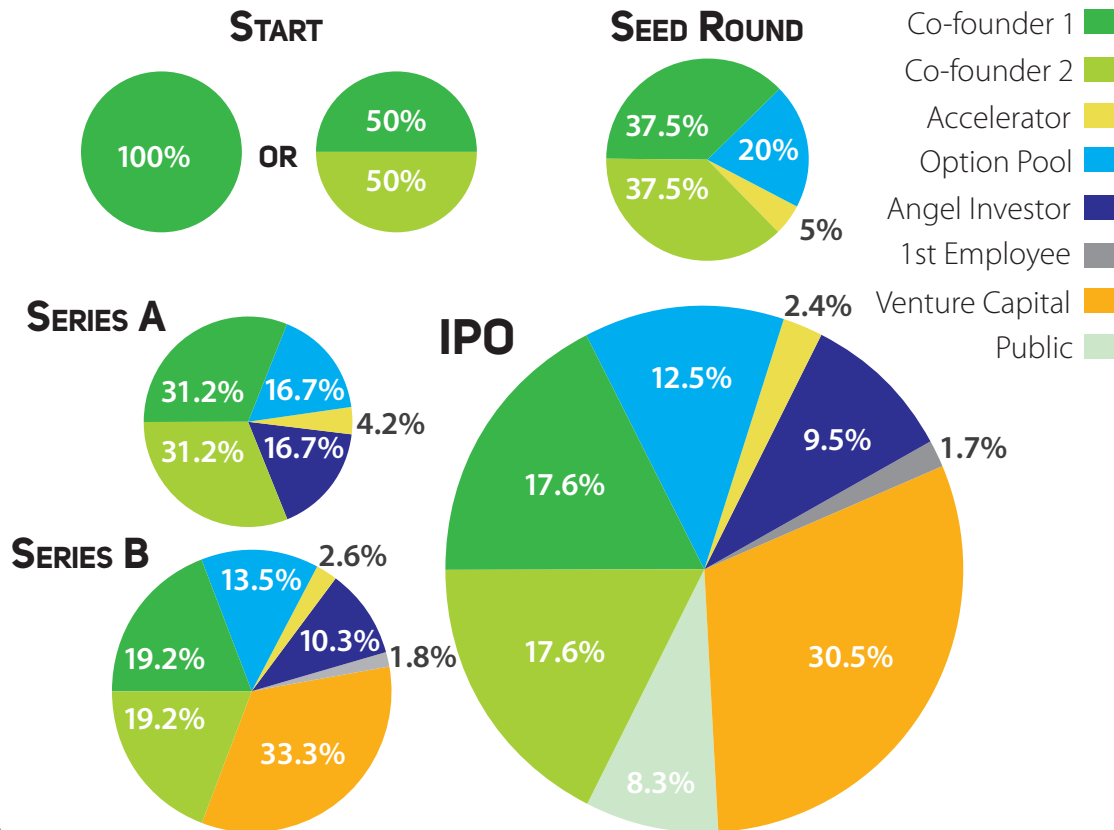
# Company ownership—what's at stake

When you receive money from an investor, you're not getting something for free. In fact, you're **selling** parts of your company (equity)—and your future profits. Investors want their investment to multiply many times over.

However, investors aren't the only people who can receive equity. Early employees often join startups and agree to very low salaries as long as they also get equity. They're hoping you'll be successful and that their equity will be worth a lot of money in the future.

This could lead to a problem: you sell so many shares of your company that at the end, you have very little left for yourself. More importantly, you could lose control of the major decisions made in your company. That's why it's important to think about these things now—while you own all or most of your company and before you're successful.

## WHO OWNS YOUR STARTUP?



*“At its heart, successful entrepreneurship is comprised of three crucial elements: markets, industries and the one or more key people who make up the entrepreneurial team.”—John Mullins*



# PRESENTING YOUR BUSINESS

Pitch your business to investors and customers



# 3.0 Introduction: You're the salesperson

---

Congratulations on making it to the final section of the workbook! In the previous sections, you learned how to find your customer, create a solution, build a business model around your idea, and to think about your business model like an investor would.

Now comes the hard part.

You're going to have to convince other people—A LOT of other people—that your startup is worth buying from, working for, and funding. And as the founder or co-founder, you're going to have to do this yourself.

*As Peter Thiel said: "Look around. If you don't see any salespeople, you're the salesperson."*

As the founder, you're naturally the best salesperson for your startup. It doesn't matter if you're an engineer, a developer, a hacker, designer, or academic—this is your company, your passion, and even if you don't have any sales or speaking experience, you're still the best person to present your startup to the world.

This section will teach you how.

In the next few pages, we will show you how to tell your startup's story, we will explain what a pitch is, how to present your startup to different audiences, and what different types of pitches you will need to present. However, all of these things involve one basic activity—talking to people about your startup.

For many people, speaking in public is far more terrifying than failing at a startup. Comedian Jerry Seinfeld said it best: "A recent survey stated that the average person's greatest fear is having to give a speech in public. Somehow this ranked even higher than death, which was third on the list. So, you're telling me that at a funeral, most people would rather be the guy in the coffin than have to stand up and give a eulogy."

*“Dealing with people is probably the biggest problem you face, especially if you are in business.” —Dale Carnegie*

Presenting your startup does not have to be that scary! Above all, it's important to know that public speaking is a skill you can learn and improve. Just because you get nervous and find it hard to speak in public today does not mean you can't become a confident, natural public speaker in a few weeks or months.

Remember: the more you practice presenting, the better you will get. So take every opportunity to practice speaking in front of your friends, your husband or wife, your parents, your doctor—anyone who will listen and give you honest feedback.

Here are some general dos and don'ts to follow when presenting your startup to others. These apply whether you're speaking to one investor or to thousands of people at a pitching competition.

## DON'T

- Don't be boring in your presentation
- Don't repeat yourself
- Don't use jargon
- Don't read note cards or slides the whole time
- Don't look down during your presentation
- Don't put all of your information in your slides
- Don't present only facts
- Don't rush through your presentation
- Don't show up unprepared
- Don't use the same presentation each time
- Don't be arrogant
- Don't try to be someone else

## DO

- Do tell a story about your company and plan
- Do stress your uniqueness
- Do show you understand business concepts
- Do use notes to help
- Do make eye contact with different people as you talk
- Do use visuals
- Do use facts to show evidence for your story
- Do make pauses to let the information sink in
- Do practice presenting to friends and family
- Do know your audience
- Do be confident
- Do be yourself

# 3.1 Telling stories

Every company begins with a story. It could be the story of how the founder came to solve a problem he or she faced and decided to build a company to help others with a similar problem. It could also be the story of a startup that failed but resulted in two co-founders meeting and coming up with the idea for an even better one.

However, all good stories have one basic element: they're about people, not things. You, your team, your customer, and your journey is the story—not your product.

Once you realize this, it's much easier to talk to other people about your startup. After all, you're just telling a story!

While there are many things you will have to consider, such as your audience, the type of presentation you need to make, how much time you have to present, your

*"You can tell a story in a sentence; you can tell a story in a paragraph; and you can tell a story in a 20-minute pitch. Startups need to do all three."*—Pitching Hacks

goal in the presentation, and so on, these are just the details—your story remains the same.

## How to talk to investors

It's hard to believe sometimes, but investors are people too. And as people, they're interested in themselves above all—and in the things that will benefit them. As Dale

Carnegie, author of the extremely valuable book *How to Win Friends and Influence People*, wrote, "People are not interested in you. They are not interested in me. They are interested in themselves—morning, noon and after dinner."

That's why two things are most important when talking to investors: showing them how investing in your startup will benefit

*“Investors don’t invest in businesses. They invest in stories about businesses.”—Pitching Hacks*

them and proving that you are trustworthy. Investors invest in people, not companies, and they generally invest in people they like, trust, and who they believe are capable—in that order. Always keep that in mind and frame your conversation in a way that immediately shows how you’re prepared to benefit them, not the other way around. The best business deals are win-win situations for both sides.

Investors are also incredibly busy people and wasting their time is the easiest way to get a “NO” answer. Before you meet with an investor, spend time preparing. You only have one chance to make a first impression, so get it right!

Here are some simple things you can do to prepare for your meeting and increase your chances of success:

1. **Research the person.** Google them, read their LinkedIn profile, and follow them on AngelList or Twitter. Learn about their interests so you can confidently talk about them.
2. **Research their connections.** Find out if you have any mutual friends or colleagues and bring them up.
3. **Research the companies they have funded.** Talk to other startups in a VC’s portfolio and get their opinions on the investor.
4. **Plan your opening.** Know what you’re going to say when you first meet the person. Don’t immediately talk about your startup or money—start with a neutral topic such as their interests or a mutual acquaintance.
5. **Practice pitching before your first meeting.** The more you practice with friends or family, the more confident you will be when it’s time to talk to an actual investor.

## TIPS

### GENERAL SPEAKING TIPS

- Stand up or sit up straight
- Look your audience in the eyes
- Have a firm handshake
- Practice, practice, practice
- Be enthusiastic
- Be confident, not arrogant
- Don’t give a speech, have a conversation
- Listen, acknowledge, respond
- Don’t read notecards
- Speak slower than usual—especially if you’re nervous
- Always say thank you when you finish

# Presenting to different audiences

Throughout your journey as an entrepreneur, you will have to convince a lot of people that your company is worth investing in—and not just money. You will have to convince potential employees that it's worthwhile for them to invest their time. You will have to convince customers that your solution is worth investing their time and money into. And, of course, you will have to convince investors that your startup is worth investing enough money so it can become a successful company.

In short, before you present your startup to your audience, you have to understand who you're speaking to and what their goals are. This chart will help get you started. However, it's best to do additional research beforehand. What are your audience's interests? If it's an investor, what kind of startups has he or she funded before? If it's a potential employee, what is their experience?

Do your homework **before** your meeting!

## KNOW YOUR AUDIENCE



Potential investor



Potential customer



Potential employee/  
co-founder



Member of the media

*“Even when one is selling to large institutions, as in a business-to-business model, it helps to remember that those businesses are made up of individuals.” —Eric Ries*

| MOST INTERESTED IN      | WHAT THEY WANT TO HEAR               | WHAT THEY REALLY CARE ABOUT           | WHAT THEY DON'T CARE ABOUT        | THEIR GOAL                                   | TECHNICAL EXPERTISE |
|-------------------------|--------------------------------------|---------------------------------------|-----------------------------------|----------------------------------------------|---------------------|
| Earning money           | How you will return their investment | Your market, industry, and traction   | How exactly your solution works   | High return on investment                    | Usually low         |
| Solving Problem         | How you will solve their problem     | Whether your solution works           | How exactly your solution works   | Solve their problem in the best way          | Low                 |
| Joining successful team | Benefits of working with you         | Equity, salary, impact on the company | The details of your business plan | Be part of a successful team, make \$        | High                |
| Getting a good story    | Why your startup is special          | Discovering the next “big thing”      | How exactly your solution works   | Be the first to tell the world about startup | Usually low         |

## 3.2 How to pitch to investors

---

You have a story to tell about your startup. Now, you need a way to tell it and someone to tell it to—preferably someone who will give you money to continue your story.

To tell your story, you need a **pitch**: your business model as spoken to an investor. There are several types of pitches, which we'll describe on the next page. However, you may be wondering how to even get a meeting with an investor. There's one main way: through your network.

***The single best way to get a meeting with an investor is to be introduced by someone in your network.*** Investors get hundreds of emails from startups—how do they know your startup is worth hearing about? By having someone they know introduce you.

*“When you first meet an investor, you’ve got to be able to say in one compelling sentence what your product does.” —Ron Conway*

The book *Get Backed* gives this advice: “No matter how isolated, every entrepreneur on the planet is one degree from someone who can push his or her venture forward. If you can find a bridge to that person through a well-placed introduction, the trust that characterizes the relationship between the person you know and the person you want to know will transfer to you.”

Of course, once you're introduced, it's very important to follow up and come prepared to your meeting. The last thing you want is for your friend or colleague to look bad for introducing you—that's a sure way to never get another introduction!

# Types of pitches

## The high concept pitch

The high concept pitch is very simple. In fact, it's just one sentence. Here's the definition from the website Venture Hacks:

*"A **high concept pitch** distills a startup's vision into a single sentence. It's the perfect tool for fans and investors who are spreading the word about your company."*

If you've ever heard a company described as "the Uber for \_\_\_\_\_" or "like YouTube for \_\_\_\_\_," then you've heard a high concept pitch. It doesn't always have to be an analogy, however—it just has to be short and clear.

Here are some example high concept pitches:

- "Flickr for video." (YouTube)
- "We network networks." (Cisco)
- "The entrepreneurs behind the entrepreneurs." (Sequoia VC)
- "It's *Jaws* in space!" (*Alien*)

There are only two rules to high concept pitches:

1. Keep it short
2. Relate to something that's already familiar

## EXERCISE

Now, keeping the earlier advice in mind, write your own high concept pitch for your startup:

|  |
|--|
|  |
|  |
|  |
|  |
|  |
|  |
|  |
|  |
|  |
|  |

The high concept pitch should be the basis of your elevator pitch, which you'll write in the next exercise.

## The elevator pitch

Every startup needs an elevator (or lift) pitch. What is it? According to *Get Backed* authors Evan Baehr and Evan Loomis:

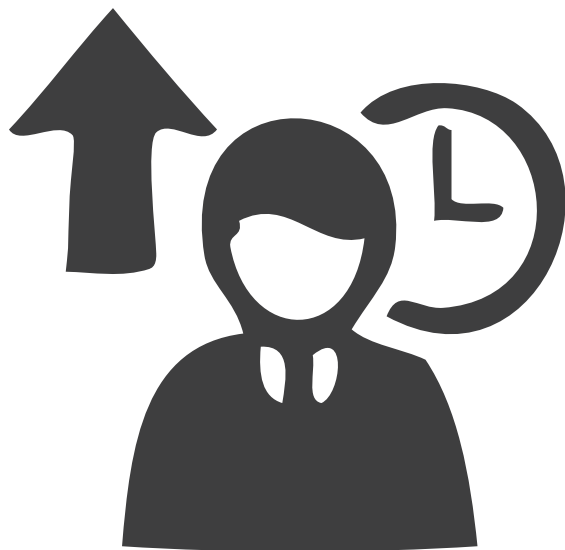
*“An **elevator pitch** is the simplest, quickest way to describe what your venture is and what makes it so amazing. It’s the pitch you prepare for when you only have fifteen seconds to catch someone’s attention—like when you meet him in an elevator or see him on a street waiting for an Uber or Lyft ride.”*

Imagine you meet the president of a VC firm at a conference. Everyone is waiting to talk to her, so you only have a few seconds to catch her attention. This is when you give your elevator pitch and your card. If she’s interested, she’ll get in touch and you’ll have more time to explain your startup. If not, you only spent 15 seconds—that means you have plenty of time to talk to more potential investors.

## The elements of a good elevator pitch:

1. It relates to something already known. Example: “Our startup is like AirBnB for solar panels.”
2. It talks about benefits for customers, not about how the product works. Example: “Our startup allows customers to save on energy costs by giving them access to unused solar panels.”
3. It attacks a common, relatable problem. Example: “Don’t you hate paying an expensive electric bill each month?”
4. It describes your vision, not your solution. Example: “I would love to see a world where everyone has access to affordable electricity.”
5. It shows you have traction. Example: “In the last month, we’ve signed up over a thousand new customers!”
6. It shows you’re better than your competition. Example: “Our competition ignores the solar market completely.”
7. It asks for something at the end, such as a meeting or introduction. Example: “I’d love to tell you more about our startup, would you have 30 minutes to meet next week?”

*“The secret to raising money is one simple principle: successful fundraisers don’t raise money, they raise friends.” —Get Backed*



## READ MORE

### More on pitching investors:

*Pitching Hacks*, p. 19-51

*Get Backed*, Part One

## TIPS

### SOME TIPS WHEN MAKING AN ELEVATOR PITCH:

- **Always be ready.** You never know when you’ll have an opportunity to pitch, so practice often and be prepared (this means always carrying business cards with you).
- **Introduce yourself first.** If you already know the person, remind them of how you met. If it’s someone new, mention a mutual friend or interest.
- **Don’t talk about your past achievements.** Instead, talk about what you’re doing now, and why you’re excited about it.
- **Keep it short.** Remember, your elevator pitch should be 15-20 seconds.
- **Be friendly.** Maintain eye contact and act confident (even if you’re nervous). Remember to smile!
- **Ask questions.** Be interested in what the person does and if you have time, ask them questions about their work.
- **Be available.** Give your business card at the end of the exchange and be sure to write or call back right away if they get in touch.

## Exercise 20: The elevator pitch

---

It's time to write your own elevator pitch. Remember, keep it short (15-20 seconds when spoken), to the point, and talk about your vision and how you will solve customers' problems, not the technical details of your solution. Start with your high concept pitch from the previous page.

Your elevator pitch should also answer the following questions in brief:

1. What exactly does your company do?
2. What industry are you in?
3. Is this a new idea?

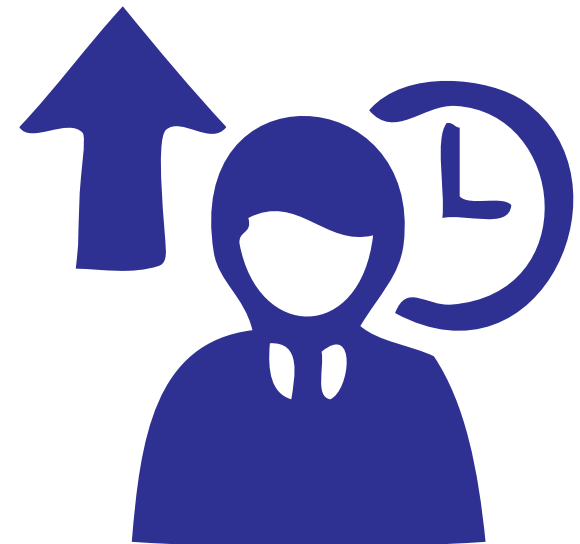
Here are some example formats to start:

**We help [your customer] do [your solution] by [your product].**

**We are a [your company] that helps [your customer] do [your solution].**

However, you should make your elevator pitch your own.

**Use the space to the right to write down some ideas, then write your exact pitch on the lines below it.**





**Your elevator pitch:**

---

---

---

---

---

---

---

---

## 3.3 The pitch deck

Once you're ready to raise money for your startup, you'll need one tool above all others: the pitch deck. What's a pitch deck? *Get Backed* authors Evan Baehr and Evan Loomis explain:

*"A **pitch deck** is a series of words and images that illustrate a venture's story and business model. Pitch decks do three things: they get people to understand, they get people to care, and they get people to take action."*

A pitch deck is a presentation made in a program such as PowerPoint or Keynote that typically consists of 10-15 slides (max!) that tell the story of your business model, your team, and goals for your startup. It is primarily used to pitch to investors when trying to raise money, but it can also be shown to potential employees, partners, suppliers, or anyone you want to convince to work with your startup.

A pitch deck describes the company vision, the team that will build that vision, the core elements of its business model, information about the market and industry, and the story of what the startup has already accomplished—in short, everything you've learned in this workbook, in one presentation. It is meant to be used together with a live presentation, so it consists of short points you elaborate on when speaking about your business.

 Understand

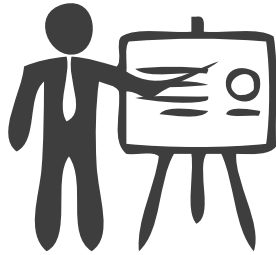
 Care

 Take action

As experienced venture capitalist Paul Lee wrote: "The best pitches come with a 10–12 slide PowerPoint that succinctly explains the business, with a link to the working service or website and the entrepreneur's biography/past experience. That's it."

On the next pages, we will describe each page of a pitch deck and give you space to create a rough draft of your own. This will be the basis for the pitch deck you will create using our online tool.

*"Stories open the hearts of your listeners, and then their wallets." —Arvee Robinson*



## THE ELEMENTS OF A PITCH DECK

1. Cover page
2. Overview
3. Opportunity
4. Problem
5. Solution
6. Traction
7. Customers/market
8. Competition
9. Business model
10. Team
11. Use of funds
12. Thank you/contact page

### DON'T

- Don't write long paragraphs in your slides
- Don't try to target multiple customer segments
- Don't ignore the competition
- Don't make promises you can't keep
- Don't present false data or vanity metrics
- Don't make your first pitch to a real investor
- Don't try to address every possible objection
- Don't claim to be a market leader too early

### DO

- Do use bullet points and short sentences
- Do focus on one reachable customer segment
- Do present a comprehensive picture of your industry
- Do present optimistic but realistic plans
- Do show verifiable data about your company and market
- Do practice pitching to colleagues in the industry
- Do be prepared to answer questions
- Do have milestones set and steps to reach them

# Slide 1: Cover page

The cover page shows your startup's name and logo, and the name of the presenter(s). It should also include a catchy, one-sentence description of what your company does. In short, the cover page should show what your company does in one image and one sentence.

## KEY ELEMENTS

- A full page photo/graphic and company colors
- A one-sentence description of your startup—this could be your slogan
- Something that catches the audience's attention

## WHAT TO SAY

- Introduce yourself and your company
- Thank your audience for their time
- Express your passion for your startup
- Keep it short—don't summarize the whole presentation, just introduce it

# Exercise: Slide 1

Use the space below to sketch and write your cover page



# Slide 2: Overview

The overview presents your elevator pitch: your company vision and solution presented in 15-20 seconds. This is when you introduce the problem you are trying to solve and briefly describe how your solution will work.

As Evan Baehr and Evan Loomis wrote, this page should “give your audience a small taste of what your company does, but leave them hungry for more.”

## KEY ELEMENTS

- Easy to understand
- Shows that you’re thinking big
- Shows that you’re passionate about your idea

## WHAT TO SAY

- Give your elevator pitch
- State the problem in a relatable way
- Explain how your solution solves the problem

## Exercise: Slide 2

Use the space below to sketch and write your overview slide



# Slide 3: Opportunity

The opportunity slide should tell your audience why now is the perfect time to do what you're doing, and why they don't want to miss this chance. It should create excitement.

This is where you describe your market and your industry. Remember: investors are looking for companies that can dominate a large market, so stress the size and your potential customer segment(s). Talk about the growth potential of your startup if you enter the market now. Describe how fast it is growing and talk about whether this pace is expected to continue or even increase.

Above all, you want to show your audience that you have researched your industry and market, and that you understand the current trends. You want your audience to see you as an expert and to agree with your conclusions—that now is the best time to launch your startup (with their help)!

## KEY ELEMENTS

- A description of your market
- A description of your industry
- Explains why now is the best time to launch your venture

## WHAT TO SAY

- Talk about trends in your market—is it growing?
- Talk about your industry—is there competition?
- Create excitement and a sense that this is an opportunity they don't want to miss

## Exercise: Slide 3

Use the space below to write your opportunity slide



# Slide 4: Problem

The problem slide presents the problem you are trying to solve. This is the problem you picked and validated in the exercises in [Section 1](#), and later used to define your customer segment.

Here is the description from Evan Baehr and Evan Loomis: “In your problem slide, describe the problem you are solving and how and why that problem is painful. Your audience should feel as if an injustice has been done.”

You want your audience to nod their heads in agreement when you describe this problem—that’s how you’ll know you’re succeeding. You should start by talking about the problem in general terms. Then talk about a specific customer or person who has this problem and how it makes their life more difficult. You want your audience to see that you understand and empathize with this person, and that you really want to solve their problem.

Finally, talk about the existing solutions to this problem (if there are any), and why they are not effective.

## KEY ELEMENTS

- Describes the overall problem
- Demonstrates that a big market has this problem
- Shows that you understand this problem well
- Lists any existing solutions

## WHAT TO SAY

- Tell a story about a typical customer with this problem
- Describe how this problem affects the customer
- Describe the problem in a way the audience can relate

# Exercise: Slide 4

Use the space below to write your problem slide



# Slide 5: Solution

The solution slide presents your unique solution to the problem you just introduced. This is the value proposition you described in the canvas exercises in [Section 1](#) and in your business model.

At this point in the presentation, your audience should be on the edge of their seats (metaphorically, of course). You have presented a unique opportunity in a growing market and a problem that really needs to be solved. If this were a movie, this is the point when the hero would come in to save the day—you're that hero.

Without going into technical details, describe how your solution works and how it is the best way to solve the problem you presented. Return to the customer you talked about in the previous slide and describe exactly how their life becomes better once they have your solution.

If your solution is a physical product or a website, this is when you show your MVP or prototype. Let the audience try it out, play with it, and try to use it themselves.

## KEY ELEMENTS

- Shows how the solution is unique
- Demonstrates how the solution works without being too technical
- Talks about how your great team will build this solution

## WHAT TO SAY

- Describe how your solution will solve your customer's problem
- Talk about why customers want your solution
- Show or explain your MVP and customer reactions to it

## Exercise: Slide 5

Use the space below to write your solution slide

# Slide 6: Traction

While the previous slide is probably the most important part of your startup to you, to investors, the slide showing traction is key. As we stressed earlier, it doesn't matter if your solution is amazing if you don't have a business model that can sell it and bring profits.

This slide is where you present your business model, the hypotheses you have made and tested, and how they are proving true. This is the time for statistics and data, but remember that you need to show actionable metrics, not vanity metrics (see [Section 1.6](#) to review the differences).

Above all, you need to show that your business model is scalable and repeatable. As Evan Baehr and Evan Loomis wrote: "Investors don't want to feel that a venture needs them. Traction helps convince an investor that the idea is going to be a success no matter what."

## KEY ELEMENTS

- Actionable metrics that show growth
- Evidence that your business model is scalable and repeatable
- Introduces your sales and marketing strategies

## WHAT TO SAY

- Talk about where you started, and where you are now
- Don't just show graphs, describe what the data means
- Describe your sales process, and how you acquire and retain customers

## Exercise: Slide 6

Use the space below to write your traction slide

# Slide 7: Customers/market

This slide focuses on your customer segment(s) and the overall market for your solution. This is your chance to show just how well you understand your customers and the market they represent. It's also the time to show your sales statistics (if you have any) and how you're reaching those customers.

In this slide, you want to show your startup's potential. There are always customers you haven't reached yet, and investors want to know that you know about them and have a plan to reach them. Show that you understand your customers and their problems, and that you have thought about and tested ways to reach them with your solution.

If you are already selling your solution, now is the time to show revenue and acquisition cost data, and how you plan to grow and improve these numbers.

## KEY ELEMENTS

- Customer segments and their problems
- Ways of reaching new customer segments
- Acquisition costs per customer
- Revenue (if you already have any)

## WHAT TO SAY

- Describe your typical customer in a way the audience can relate to
- Talk about the costs and process of acquiring customers
- Give specific numbers of how many people fit into your customer segment

## Exercise: Slide 7

Use the space below to write your market slide



# Slide 8: Competition

No matter what market you're in, you will have competition. This may be direct (a similar existing solution) or indirect (a different solution that partially solves your customer's problem), but it's out there, and potential investors want to know about it.

As Evan Baehr and Evan Loomis wrote, "Your customers must be doing something right now to cope with the problem you solve. That 'something' is your competitor."

List your competitors and describe what they're doing and whether they're successful. Then, show how your startup is different and what you plan to do better. This is where you list your sustainable advantages from the road test exercise (see **Section 2.2**). It's also the time to show that you deeply understand your industry and your solution's place in it.

## KEY ELEMENTS

- A description of your industry
- List of competitors
- Advantages over your competitors

## WHAT TO SAY

- Describe the state of your industry
- Talk about the sustainable advantages your startup has
- Show how your solution is better than existing solutions

## Exercise: Slide 8

Use the space below to write your competition slide



# Slide 9: Business model

Just like your actual business model, this slide is crucial to your startup's success. It's finally time to talk about money—specifically, how will your startup make money for you and your investors? Remember: investors don't just want you to make a profit. They want to see **10X returns** on their investment!

In this slide, you will present the revenue streams and cost structure of your business model. If you have existing customers, you can present a simple formula:

$$\text{REVENUE FROM 1 CUSTOMER} - \text{COST OF ACQUIRING 1 CUSTOMER} = \text{PROFIT PER CUSTOMER}$$

You should also show monthly operation costs and how many customers you need to acquire and/or keep per month to cover those costs. If your startup has not launched yet, some of these numbers can be forecasts, but they have to be realistic and based on data.

## KEY ELEMENTS

- Revenue streams from your business model
- Cost structure from your business model
- Current financial data (if available)

## WHAT TO SAY

- Talk about the current and projected financial state of your startup
- Describe your monthly burn rate—how much money you're spending per month
- Present and describe relevant financial data (if available)

# Exercise: Slide 9

Use the space below to write your business model slide



# Slide 10: Team

This slide presents your team—the heroes of your story who will solve the problem and save the day. Now is the time to talk about the past experience, success, accomplishments, education, and technical ability you and your team members have to contribute.

Be careful, though—you don't want to spend 10 minutes talking about how great you are. Instead, only focus on information that proves you and your team have the knowledge, skills, and passion to accomplish your goals.

As Evan Baehr and Evan Loomis wrote, “Your goals are to build rapport, be known, and build confidence that the team can accomplish the mission.”

## KEY ELEMENTS

- Short biographies of yourself and your team members
- List of relevant skills
- List of your team's previous experience

## WHAT TO SAY

- Talk about your team's experience in the industry
- List the former startups and companies your team has worked for
- Show that your team has the skills and experience to succeed with your startup

# Exercise: Slide 10

Use the space below to write your team slide

# Slide 11: Use of funds

You have now presented the problem that needs to be solved, your solution, the business model that will make your company profitable, and the team that will make it all happen. It's finally time to get to the heart of your presentation: asking for money.

The trick, however, is not to ask for money directly. Instead, this slide will tell your audience how much money you want to raise in order to execute your business model and why. Then it's up to the investors to decide if they want to give you part or all of this money.

However, if someone gives you money, they want to make sure it's used wisely. In this slide, you list the exact ways you will use the money you want to raise and the benefits it will provide for the investor. Finally, you should know how much of your company you're willing to sell in exchange for investment (**equity**).

## KEY ELEMENTS

- How much money you need
- What you plan to do with the money
- The terms of investment—how much equity are you willing to sell?

## WHAT TO SAY

- Describe your plan for your business over the next 12-18 months
- Talk about how the money you raise will help your startup expand and grow
- List the terms of the investment and mention any money you may have already raised

# Exercise: Slide 11

Use the space below to write your use of funds slide



# Slide 12: Thank you/contact page

The last slide of your presentation is a thank you page with contact details for you and/or your team members. It thanks your audience for listening to you and gives them an email address, phone number, and website where they can contact you for more information.

At this point, you may be asked some questions about your solution or business plan. This is a good thing! It means your audience is interested and wants more information. When answering, be courteous, try not to get too technical (unless you're specifically asked about some aspect of your technology), and be honest if you don't know the answer to a question. It's always better to say, "I don't know yet, but I will research/test that next" than to make up an answer that may turn out to be false.

## KEY ELEMENTS

- **Company name**
- **Thank you**
- **Contact information**

## WHAT TO SAY

- **Thank your audience for their time**
- **Let them know how to contact you**
- **Ask if they have any questions and provide answers**

# Exercise: Slide 12

Use the space below to write and sketch your final slide



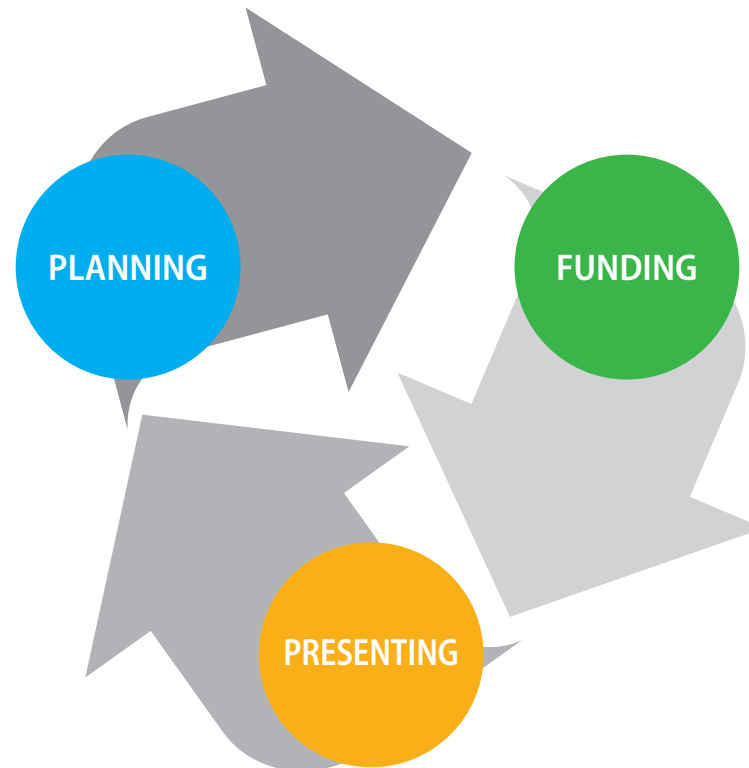
## 3.4 Putting it all together

---

You've made it to the end of this workbook—congratulations! We hope the information and exercises have been helpful, and that you feel ready to go from idea to startup to a successful, funded company.

*“Reading is good; action is better.”*

—Eric Ries



In these last pages, we will sum up the main points of each section of this workbook. Feel free to return to them whenever you need to. In addition, be sure to visit our online tool. There you can download and print all of the exercises included in this workbook, and access videos, links to articles and books for additional resources, along with other downloadable materials.

Good luck on your entrepreneurial journey!

# SECTION 1: PLANNING YOUR BUSINESS

- A good idea is not enough to start a successful business
- A startup is not a smaller version of a large company
- A startup is a temporary organization in search of a scalable, repeatable, profitable business model
- You don't need a business plan, you need a business model
- Get out of the building and talk to customers first
- Don't waste time and money building something nobody wants
- Early adopters are the ideal first customers
- Successful startups don't build products, they solve problems
- Your solution only has value if customers find it valuable
- Successful startups find product/market fit and business model fit
- A business model describes the rationale of how an organization creates, delivers, and captures value
- A great product will fail without a good business model
- Startups exist to create and test hypotheses until they find a working business model
- A minimum viable product (MVP) helps startups run experiments quickly and effectively
- Every startup must decide whether to pivot or proceed

## SECTION 2: FUNDING YOUR BUSINESS

- To get funding, entrepreneurs must learn to think like investors
- Investors care most about the Four Ms: Management Team, Momentum, Market Opportunity, Money
- Road test your startup before launching
- Carefully examine your industry, market, and team
- Startups raise money in 4 ways: profits, debt, equity, and donation
- Angel investors and venture capital firms investing in startups are hoping for 10X returns on their investment
- Venture capital can help startups at various stages in exchange for equity
- Think about your startup's equity from the start, and don't sell it too easily

## SECTION 3: PRESENTING YOUR BUSINESS

- The founder is the best salesperson and spokesperson for their startup
- Practice presenting and speaking in public often before meeting investors
- Every startup has a story and it's your job to tell yours
- You have to learn to talk about your startup in many different ways
- Every startup needs a high concept pitch, an elevator pitch, and a pitch deck
- A pitch deck is a presentation of 10-15 slides that describes your vision, team, and business model
- Learn to tailor your presentation to address different audiences
- Always consider the goals of your audience and what they want to hear
- Research an investor before the meeting, and come prepared
- Get out there and pitch!

*“When you find an idea that you just can’t stop thinking about, that’s probably a good one to pursue.” —Josh James*



# RESOURCES

Glossary and further reading



# Glossary

**A/B Test or Split Test:** randomly showing a customer one version of a solution—the (A) version or (B) version—and tracking the changes in behavior based on which version they saw. The (A) version is normally your existing design or “control,” and the (B) version is the “challenger” with one copy or design element changed, such as displaying a different headline.

A/B Testing is also used to determine which two strategies for selling a brand or service work, based on analytics derived by relationship analysis of landing page results against a call for action related to those landing pages.

**Acquisition:** When one company buys controlling stake in another company. Can be friendly (agreed upon) or hostile (no agreement).

**Actionable Metrics:** pieces of data that tie specific and repeatable actions to observed

results. Actionable metrics lead to informed business decisions and subsequent action. While vanity metrics, like website hits or number of downloads, don’t offer insight into how something happened or what to do next, actionable metrics do. However, vanity metrics such as website hits can be used as actionable metrics if measured within the context of an A/B test.

**Agile Development:** an iterative and incremental approach to project management. Tasks are broken down into smaller tasks, which can be created or changed without breaking the entire system. This lets developers respond quickly to changing requirements and leads to more frequent releases without additional cost.

Rather than completely specifying all details up front, this naturally leaves definition of detail to the last possible moment. The processes associated with

agile development allow teams to move rapidly to new territory, and to make fewer mistakes on the way.

**Angel Investor:** also known as a business angel or informal investor, an affluent individual who provides capital for a business startup, usually in exchange for convertible debt or ownership equity. A small but increasing number of angel investors organize themselves into angel groups or angel networks to share research and pool their investment capital, as well as to provide advice to their portfolio companies.

**Board of Directors:** a group of influential individuals, elected by stockholders, chosen to oversee the affairs of a company. A board typically includes investors and mentors. Not all startups have a board, but investors typically require a board seat in exchange for an investment in a company.

**Bootstrapping:** starting a business without external help or capital. Such startups fund the development of their company through internal cash flow and are cautious with their expenses. Generally at the start of a venture, a small amount of money will be set aside for the bootstrap process. Startups can grow by reinvesting profits in their own growth if bootstrapping costs are low and return on investment is high.

**Brainstorming:** a group or individual creativity technique by which efforts are made to find a conclusion for a specific problem by gathering a list of ideas spontaneously contributed by its member(s). Though not originally intended at its creation, the term is currently used as a catch-all for group ideation sessions.

**Build-Measure-Learn:** a feedback loop that visualizes the process entrepreneurs use to continually improve their product.

The diagram shows how startups turn ideas into products, measure how customers respond, learn whether to pivot or persevere, and then repeat the process. All successful startup processes should be geared to accelerate that feedback loop.

**Burn Rate:** the rate at which a new company uses its venture capital to finance overhead before generating positive cash flow from operations. It can also be thought of as negative cash flow. Burn rate is usually quoted in terms of cash spent per month. When the burn rate begins to exceed forecasts, or revenue fails to meet expectations, the usual recourse is to reduce the burn rate. In many companies, reducing the burn rate means reducing staff.

**Business Model:** the plan implemented by a company to generate revenue and make a profit from operations. The model includes the components and functions

of the business, as well as the revenues it generates and the expenses it incurs.

**Business Model Canvas:** a strategic management tool to design, test, build, and manage (profitable and scalable) business models.

**Business Plan:** a written document that describes in detail how a new business is going to achieve its goals from a marketing, financial, and operational viewpoint. The purpose of a business plan is to enable owners to have a defined picture of potential costs and drawbacks to business decisions and to help them modify accordingly before implementing these ideas.

**Call to Action (CTA):** something that prompts a subject to perform an action. It's used in an experiment in order to test one or more hypotheses.

**Crowdfunding:** the use of small amounts of capital from a large number of individuals to finance a new business venture. Crowdfunding has the potential to increase entrepreneurship by expanding the pool of investors from whom funds can be raised beyond the traditional circle of owners, relatives, and venture capitalists. This style of funding makes use of the easy accessibility of vast networks of friends, family, and colleagues through social media websites like Facebook, Twitter, and LinkedIn to get the word out about a new business and attract investors.

**Customer Development:** a four-step process invented by Steve Blank to reduce the risk and uncertainty in entrepreneurship by continuously testing the hypotheses underlying a business model with customers and stakeholders.

**Customer Insight:** a minor or major breakthrough in your customer

understanding helping you design better value propositions and business models.

**Customer Profile:** a business tool that constitutes the right-hand side of the Value Proposition Canvas. It visualizes the jobs, pains, and gains of a customer segment (or stakeholder) you intend to create value for.

**Design Thinking:** a creative problem-solving methodology and a collection of behaviors at the heart of creativity. Some of the behaviors of design thinking include being attuned to the people and culture you are immersed in and having the experience, wisdom, and knowledge to frame the real problem and the ability to create and enact solutions.

**Due Diligence:** an analysis an investor makes of all the facts and figures of a potential investment. Can include an investigation of financial records and a measure of potential ROI.

**Elevator Pitch:** a brief speech that outlines an idea for a product, service or project by explaining the features, benefits, and cost savings, with the goal of convincing the listener the idea is worth investment. The name comes from the notion that the speech should be delivered in the time period of an elevator ride, usually 20-60 seconds. In the financial world, an elevator pitch refers to an entrepreneur or project manager's attempt to convince a venture capitalist that a business idea is worth investment, but it is also used by salespeople and jobseekers to market themselves or their ideas.

**Equity:** ownership in any asset after all debts associated with that asset are paid off. The specific definition of "equity" varies contextually. Here are three definitions:

1. A stock or any other security representing an ownership interest.
2. On a company's balance sheet, the amount of funds contributed by the

owners (the stockholders) plus the retained earnings (or losses).

3. In terms of investment strategies, equity (stocks) is one of the principal asset classes. The other two are fixed-income (bonds) and cash/cash equivalents.

**Evidence:** proves or disproves a (business) hypothesis, customer insight, or belief about a value proposition, business model, or the environment.

**Experiment or Test:** a procedure to validate or invalidate a value proposition or business model hypothesis that produces evidence.

**Exit:** the method by which an investor and/or entrepreneur intends to “exit” their investment in a company. Common options are an IPO or buyout from another company. Entrepreneurs and VCs often develop an “exit strategy” while the company is still growing.

**Failing Forward:** leveraging mistakes. Rather than allowing a failure to be a completely negative experience, learning to fail forward means making a realistic assessment of risks and developing the ability to build achievements from mistakes and experiment with new approaches.

**Groupthink:** a phenomenon marked by the consensus of opinion without critical reasoning or evaluation of consequences or alternatives. In a business setting, groupthink can cause employees and their bosses to overlook potential problems in the pursuit of consensus thinking. When individual critical thinking is deemphasized or frowned upon, employees may self-censor themselves and not bring up alternatives or risks for fear of upsetting the status quo.

**(Business) Hypothesis:** something that needs to be true for your idea to work partially or fully but that hasn’t been validated yet.

**Ideation:** the creative process of generating, developing, and communicating new ideas. Ideation is all stages of a thought cycle, from innovation, to development, to actualization.

**Incubator or Accelerator:** a program designed to support the development of entrepreneurial companies through an array of business support resources and services offered both in the incubator and through its network of contacts. Incubators vary in the way they deliver their services, in their organizational structure, and in the types of clients they serve.

**Initial Public Offering (IPO):** the first time shares of stock in a company are offered on a securities exchange or to the general

public. At this point, a private company turns into a public company (and is no longer a startup).

**Intrapreneur:** an inside entrepreneur, or an entrepreneur within a large firm, who uses entrepreneurial skills without incurring the risks associated with those activities. Intrapreneurs are usually employees within a company who are assigned a special idea or project, and are instructed to develop the project like an entrepreneur would. Intrapreneurs usually have the resources and capabilities of the firm at their disposal. The intrapreneur's main job is to turn the special idea or project into a profitable venture for the company.

**Iterate:** in a project context it means to develop and deliver incremental components of business functionality, product development or process design. Iterative development is most often associated with agile development. A

single iteration results in one or more small but complete packages of project work that can perform some tangible business function. Multiple iterations recurse to create a fully integrated product.

**Lean Startup:** an approach by Eric Ries based on the Customer Development process to eliminate waste and uncertainty from product development by continuously building, testing, and learning in an iterative fashion.

**Mind Map:** a diagram used to visually outline information. A mind map is often created around a single central word or text to which associated ideas, words and concepts are added. Major categories radiate from a central node, and lesser categories are sub-branches of larger branches. Categories can represent words, ideas, tasks, or other items related to a central key word or idea.

**Minimum Viable Product (MVP):** the version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort. The goal of an MVP is to test fundamental business hypotheses as quickly as possible.

**Open Source:** when a software program is open source, it means the program's source code is freely available to the public. Unlike commercial software, open source programs can be modified and distributed by anyone and are often developed as a community rather than by a single organization.

**Pivot:** a structured course correction designed to test a new fundamental hypothesis about the product, strategy, and engine of growth.

**Portfolio Company:** a company that a specific venture capital firm has invested in is considered a “portfolio company” of that firm.

**Product/Market Fit:** when your solution solves the problems of your Customer Segment and a substantial number of customers “hire” your value proposition. Marc Andreessen was the first person that used the term: “Product/market fit means being in a good market with a product that can satisfy that market.”

**Prototype:** an early sample or model built to test a concept or process or to act as a thing to be replicated or learned from. A prototype is designed to test and trial a new design to enhance precision by system analysts and users. Prototyping serves to provide specifications for a real, working system rather than a theoretical one.

**Return On Investment (ROI):** the money an investor gets back as a percentage of the money he or she has invested in a venture.

**Round:** startups raise capital from VC firms in individual rounds, depending on the stage of the company. The first round is usually a Seed round followed by Series A, B, and C rounds if necessary.

**Scalability:** the idea that a solution can be extended beyond a small, local group to serve a large, broad group. Typically, scale implies spread across geographic boundaries, often into new countries. Implicit in a push for scale is the idea that a solution can be generalized; the goal is often breadth of impact, but also streamlined production, distribution, and a minimization of costs.

**Seed:** the seed round is the first official round of financing for a startup. At this point a company is usually raising funds for proof of concept and/or to build a prototype and is referred to as a “seed stage” company.

**Series:** refers to the specific round of financing a company is raising. For example, company X is raising their Series A round.

**Solution:** a product or service that alleviates customer pains by eliminating or reducing bad outcomes, risks, and obstacles that prevent customers from getting a job done (well).

**Stage:** the stage of development a startup company is in. There is no explicit rule for what defines each stage of a company, but startups tend to be categorized as seed stage, early stage, mid-stage, and late stage. Most VC firms only invest in companies in

one or two stages. Some firms, however, manage multiple funds geared toward different stage companies.

**Startup:** a company or organization in the first stage of its operations designed to search for a repeatable and scalable business model. These companies are often initially supported by outside investors through venture capital as they attempt to capitalize on developing a product or service for which they believe there is a demand.

**Synthesis:** combining separate elements or components in order to form a coherent whole.

**Term Sheet:** a non-binding agreement that outlines the major aspects of an investment to be made in a company. A term sheet sets the groundwork for building out detailed legal documents.

**Valuation:** the process by which a company's worth or value is determined. An analyst will look at capital structure, management team, and revenue or potential revenue, among other things.

**Value Map:** a business tool that constitutes the left-hand side of the Value Proposition Canvas. Makes explicit how your products and services create value by alleviating pains and creating gains.

**Value Proposition:** describes the benefits customers can expect from your products and services.

**Value Proposition Canvas:** a strategic management tool to design, test, build, and manage products and services. Fully integrates with the Business Model Canvas.

**Value Proposition Design:** the process of designing, testing, building, and managing value propositions over their entire lifecycle.

**Vanity Metrics:** pieces of data that make you feel good, such as new users gained per day or number of downloads. As opposed to actionable metrics, vanity metrics give "the rosier picture possible," but do not accurately reflect the key drivers of a business. It's important to remember to never act on vanity metrics alone. For example, while a high number of users gained per day seems beneficial to any company, if the cost of acquiring each user through expensive advertising campaigns is significantly higher than the revenue gained per user, then gaining more users could quickly lead to bankruptcy.

**Venture Capital:** money provided by investors to startups and small businesses with perceived long-term growth potential.

This is a very important source of funding for startups that do not have access to capital markets. Venture capital can also include managerial and technical expertise.

Most venture capital comes from a group of wealthy investors, investment banks and other financial institutions that pool investments or partnerships. The downside for entrepreneurs is that venture capitalists usually get a say in company decisions, in addition to a portion of the equity.

**Venture Capitalist (VC):** an individual investor, working for a venture capital firm, that chooses to invest in specific companies. Venture capitalists typically have a focused market or sector that they know well and invest in.

**Waste:** any human activity which absorbs resources but creates no value.

**Wireframe:** also known as a page schematic or screen blueprint, a visual guide that represents the skeletal framework of a website. The wireframe depicts the page layout or arrangement of the website's content, including interface elements and navigational systems, and how they work together. Wireframes can be pencil drawings or sketches on a whiteboard, or they can be computerized.

## SOURCES

### Strategyzer Glossary

by Alex Osterwalder, Yves Pigneur,  
Greg Bernarda, Alan Smith  
Designed by Trish Papadakos  
Copyright Strategyzer AG  
[www.strategyzer.com/vpd](http://www.strategyzer.com/vpd)

### Glossary of Terms and Key

**Concepts** by Project Breaker + the  
d.school 2013  
[futureofstuffchallenge.org/download/  
business/breaker-glossary.pdf](http://futureofstuffchallenge.org/download/business/breaker-glossary.pdf)

Used with permission from  
Strategyzer and Project Breaker.

# Further reading

## Planning Your Business

*Business Model Generation* by Alex Osterwalder and Yves Pigneur. Wiley, 2010.

*Crossing the Chasm* by Geoffrey A. Moore. HarperBusiness, 2014.

*Do More Faster* by David Cohen and Brad Feld. Wiley, 2010.

*The E-Myth Revisited* by Michael E. Gerber. HarperCollins, 1995.

*Extreme Programming Explained: Embrace Change*, 2nd Edition by Kent Beck and Cynthia Andres. Addison-Wesley, 2004.

*The Hard Thing About Hard Things* by Ben Horowitz. HarperBusiness, 2014.

*The Hardware Startup* by Renee DiResta, Brady Forrest, and Ryan Vinyard. O'Reilly Media, Inc., 2015.

*Hello, Startup* by Yevgeniy Brikman. O'Reilly Media, Inc., 2015.

*The \$100 Startup* by Chris Guillebeau. Crown Business, 2012.

*The Innovator's Dilemma* by Clayton M. Christensen. HarperBusiness, 2011.

*Lean Analytics* by Alistar Croll and Ben Yoskovitz. O'Reilly Media, Inc., 2013.

*The Lean Startup* by Eric Ries. Crown Business, 2011.

*Lean Thinking* by James P. Womack and Daniel T. Jones. Productivity Press, 2003.

*The Longer Long Tail* by Chris Anderson. Random House Business Books, 2009.  
*Start Small, Stay Small* by Rob Walling. Rob Walling, 2010.

*The Startup Owner's Manual* by Steve Blank and Bob Dorf. K and S Ranch Inc., 2012.

*Ten Types of Innovation* by Larry Keeley, Ryan Pikkell, Brian Quinn, and Helen Walters. Wiley, 2013.

*UX For Lean Startups* by Laura Klein. O'Reilly Media, Inc., 2013.

*Value Proposition Design* by Alex Osterwalder, Yves Pigneur, Greg Bernarda, and Alan Smith. Wiley, 2014.

*The Wisdom of Failure* by Laurence G. Weinzimmer and Jim McConoughey. Jossey-Bass, 2012.

*Zero to One* by Peter Thiel. Crown Business, 2014.

## Funding Your Business

*The Entrepreneurial Bible to Venture Capital* by Andrew Romans. McGraw-Hill Education, 2013.

*Mastering the VC Game* by Jeffrey Bussgang. Portfolio, 2010.

*The New Business Road Test* (4th ed.) by John Mullins. Pearson, 2013.

*The Startup Game* by William H. Draper. St. Martin's Press, 2011.

*The 10X Rule* by Grant Cardone. Wiley, 2011.

*Term Sheets & Valuations* by Alex Wilmerding. Aspatore Books, 2006.

*Venture Deals* by Brad Feld and Jason Mendelson. Wiley, 2013.

## Presenting Your Business

*Get Backed* by Evan Baehr and Evan Loomis. Harvard Business Review Press, 2015.

*How to Win Friends and Influence People* by Dale Carnegie. Simon & Schuster, 2009.

*Made to Stick: Why Some Ideas Survive and Others Die* by Chip and Dan Heath. Random House, 2007.

*Pitch Anything* by Oren Klaff. McGraw-Hill Education, 2011.

*Pitching Hacks* by Venture Hacks. Venture Hacks, 2008.

*The Startup Pitch* by Chris Lipp. Chris Lipp, 2014.

*Talk Like TED* by Carmine Gallo. St. Martin's Press, 2015.

## ONLINE

Be sure to visit our website for links to books and websites as well as a full list of links to articles, downloadable content, and additional resources.

# Notes

