Reducing Start-up Risk by using Lean/Business Model Generation

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Three Types of Start-up Risk

- Technology Risk
- Market Risk
- Economic Profit Risk

The Start-up needs to address these risks before they run out of resources ($/time)
Lean Startup Books/Tools

- The Lean Startup by Eric Ries
- Business Model Generation
- The Startup Owner’s Manual by Steve Blank and Bob Dorf
Market Risks to be Addressed

• Understand the customer
  – Needs and what problem is being solved (aspirin is better than vitamins)
  – Willingness to pay what you are asking (everyone in the channel)
  – Who makes the buying decision

• Correct marketing message & product

• Size of opportunity
Economic Profit Risks to be Addressed

- Can you produce the product profitably?
- Can you acquire customers effectively?
- Does the return justify the investment?
Frequent Results

• Attractive customer segment is smaller/different than expected
• Product needs to be altered to meet customer needs
• What customer cares about is different than expected
• Learning allows the company to ‘Pivot’
• Iterative process
• Key is to iterate quickly (fail fast) and learn
Case Examples

- Pixar
- Paypal
- Waterloo Toolboxes
Business Model

• What is a Business Model?
Business Model

• What is a Business Model?

• A business model describes why the organization exists and how it creates, delivers, and captures value
Business Model Canvas by Osterwalder

- Focus on key components of Bus. Model
- Hypothesis driven
- Easily changeable (Post-it Notes)
- Can color code different customer segments
- Additional info can be found at http://www.businessmodelgeneration.com/
Customer Segments

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

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform
Value Propositions

What value do we deliver to the customer?
Which one of our customer’s problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?

CHARACTERISTICS
- Newness
- Performance
- Customization
- “Getting the Job Done”
- Design
- Brand/Status
- Price
- Cost Reduction
- Risk Reduction
- Accessibility
- Convenience/Usability
Channels

Through which Channels do our Customer Segments want to be reached?
How are we reaching them now?
How are our Channels integrated?
Which ones work best?
Which ones are most cost-efficient?
How are we integrating them with customer routines?

CHANNEL PHASES:
1. Awareness
   How do we raise awareness about our company’s products and services?
2. Evaluation
   How do we help customers evaluate our organization’s Value Proposition?
3. Purchase
   How do we allow customers to purchase specific products and services?
4. Delivery
   How do we deliver a Value Proposition to customers?
5. After sales
   How do we provide post-purchase customer support?
Customer Relationships

What type of relationship does each of our Customer Segments expect us to establish and maintain with them? Which ones have we established? How are they integrated with the rest of our business model? How costly are they?

EXAMPLES
Personal assistance
Dedicated Personal Assistance
Self-Service
Automated Services
Communities
Co-creation
Revenue Streams

For what value are our customers really willing to pay?
For what do they currently pay?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenues?

TYPES:
Asset sale
Usage fee
Subscription Fees
Lending/Renting/Leasing
Licensing
Brokerage fees
Advertising

FIXED PRICING
List Price
Product feature dependent
Customer segment dependent
Volume dependent

DYNAMIC PRICING
Negotiation (bargaining)
Yield Management
Real-time-Market
Key Resources


TYPES OF RESOURCES
Physical
Intellectual (brand patents, copyrights, data)
Human
Financial
Key Activities


CATEGORIES
Production
Problem Solving
Platform/Network
Key Partners

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

MOTIVATIONS FOR PARTNERSHIPS:
Optimization and economy
Reduction of risk and uncertainty
Acquisition of particular resources and activities
Cost Structure

What are the most important costs inherent in our business model? Which Key Resources are most expensive? Which Key Activities are most expensive?

IS YOUR BUSINESS MORE:
Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
Value Driven (focused on value creation, premium value proposition)

SAMPLE CHARACTERISTICS:
Fixed Costs (salaries, rents, utilities)
Variable costs
Economies of scale
Economies of scope
Benefits in Using the Business Model Canvas

• Consistent logic
• Less likely to miss a key gap
• Easily changes when new learning demands a pivot
• Used to generate financial model
• Easy to use framework means more time to get out of the office and talk with customers
Key things to remember

• Talk to potential customers earlier rather than later
• Try to answer greatest risk questions first
• Try to run affordable tests that confirm your market/customer