



Introduction to Customer Discovery

Paul Wetenhall, Ventureprise, Inc.

Topics

- Idea or Opportunity?
- Customer Development...a Process
- Business Model Canvas...Integrated Approach
- Your Business Model Canvas...Begin

Startup Defined

- May be a clean-sheet new business or could be a large organization new entry
- Goal: Figure out the right product or service to build as quickly as possible
- Reality: Operate under conditions of extreme uncertainty
- Structure: A temporary organization in search of a scalable, repeatable, profitable business model

Concepts adapted from *The Lean Startup*, Eric Ries and *The Startup Owner's Manual*, Steve Blank and Bob Dorf.

Market Knowledge

- **Bring It**
 - Founders have deep market knowledge
- **Learn It**
 - Market analysis before you start...but get going!
- **Hire It**
 - Ideally, a founding partner with the right marketing and sales expertise


Source: 6 Secrets of Startup Success, John Bradberry.



Idea or...
Opportunity?

Opportunity Continuum

	Idea	Invention	Innovation	Opportunity
Technical Feasibility	?	✓	✓	✓
Customer Acceptance	?	?	✓	✓
Business Model	?	?	?	✓



A Simple Guide

Make Something People Want

Paul Graham

Veteran entrepreneur and founder of Y Combinator



Customer Development & Business Model Canvas

Customer Development

- Customer Discovery
 - Founder's vision
 - Develop hypotheses
 - Test customer reaction to convert hypotheses into facts
- Customer Validation
 - Test business model to assess if it is repeatable and scalable
- Customer Creation
 - Build end-user demand and drive it into the sales channel
- Company Building
 - Execution of a validated model

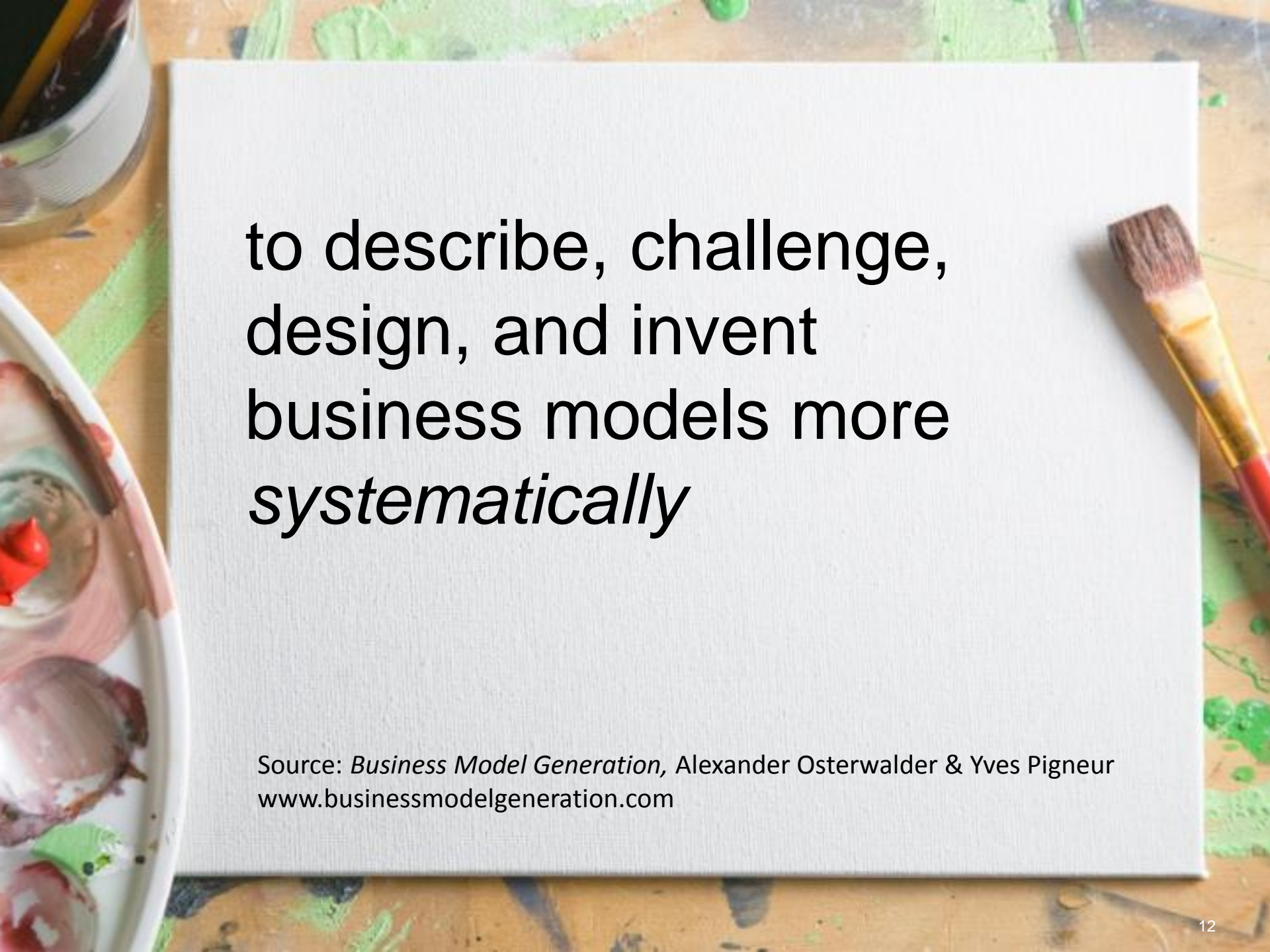
Source: *The Startup Owner's Manual*, Steve Blank and Bob Dorf.

Customer Development Paths

- Physical
 - Applies to most products and services, including some info tech
 - How to test what you don't yet have
- Web/Mobile
 - Applies to web services and to mobile applications
 - Low-fidelity test
 - High-fidelity test
- Key Concept: **Minimum Viable Product (MVP)**
 - Lacks many features
 - But, enables actionable customer feedback


A blank white canvas is centered on a wooden surface. The surface is decorated with various paint splatters in shades of green and brown. To the left of the canvas, a white palette holds several colors of paint, including red, pink, and purple. To the right, a paintbrush with a wooden handle and a red grip is visible. The overall scene suggests a creative workspace.

Business Model Canvas

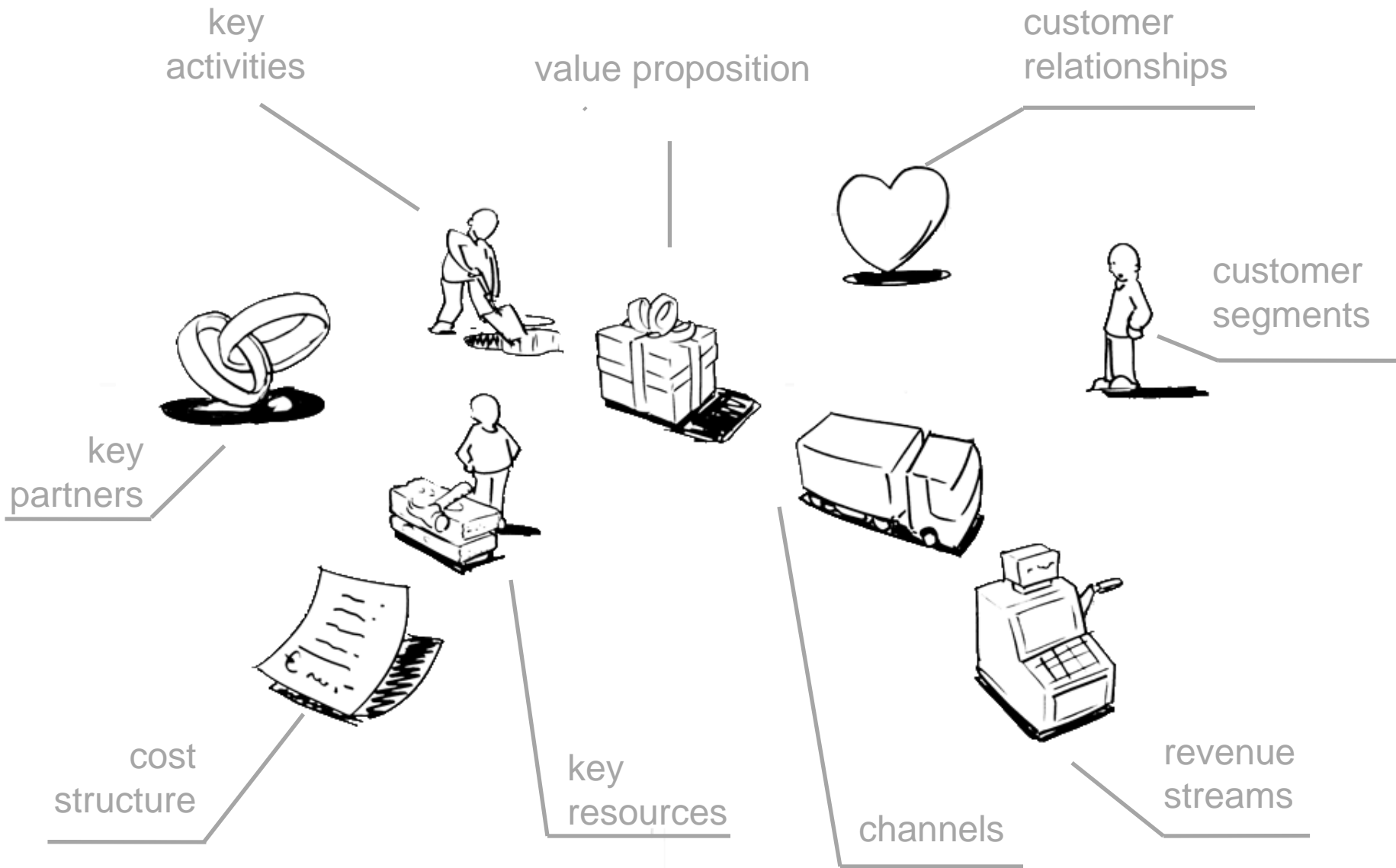
A white canvas with text, surrounded by paintbrushes and a palette. The background is a wooden surface with green and red paint splatters. A paintbrush with a wooden handle and a red band is on the right. A palette with various colors of paint is on the left.

to describe, challenge,
design, and invent
business models more
systematically

Source: *Business Model Generation*, Alexander Osterwalder & Yves Pigneur
www.businessmodelgeneration.com

A white canvas is centered on a wooden table. The table surface is covered with various paint splatters, including green and brown. To the left of the canvas, a white palette holds several colors of paint, including red, pink, and purple. To the right, a paintbrush with a wooden handle and a red grip lies on the table. The overall scene suggests an artistic workspace.

9 building blocks



Pivot

- Substantive change of one or more of the Business Model Canvas components
 - A minor changes is an Iteration
- Pivots are adaptations based on learning
- Pivots cost time and money, but may be required for success
- Pivots come in many varieties
 - Zoom-in or Zoom-out
 - Customer Need or Customer Segment
 - Platform or Technology
 - Business Architecture
 - Value Capture
 - Channel

Getting Started

- Your Business Idea
 - One or two sentences
 - Everything
- Customer Problem
 - What do you think you are solving?
 - How do you know that it is a problem?



Value Proposition

Value Proposition

- Answers “why I should do business with you and not the competition”
- Value = customer benefit – cost
- Important, credible, sustainable
- Leads to your Unique Selling Proposition
 - Single clear, compelling statement
 - Your competitive difference
 - Your product (service) worth buying

Value Offered to Customer

- **Product:** Performance, quality, features, brand, selection, search, easy to use, safe
- **Access:** Convenient, location, nearby, at-hand, easy to find, in a reasonable time
- **Service:** Ordering, delivery, return, check-out
- **Experience:** Emotional, respect, ambiance, fun, intimacy, relationships, community
- **Price:** Fair, visible, consistent, and reasonable

Target Customer

- Value proposition begins by understanding **Who**
 - Who uses your product/service or a similar current solution?
- **What** is important and motivational to them?
- **Why** buy...do you solve a pain point?
- **Where** and **How** do these people buy?
- Are early adopters different?
- Are there marquee or referral prospects?

Your Value Proposition

- Sentence
 - We _____ *that* _____ *which* _____.
- Longer Version
 - For [target end user]
 - Who needs/wants [compelling reason to buy]
 - The [product name] is a [product category]
 - That provides [key benefit]
 - Unlike [existing competitive solution]
 - The [product name] [key differentiation]

Adapted from Guy Kawasaki and Geoffrey Moore

Step 1. Specify the Value Proposition

- Product(s)?
 - Service(s)?
 - Ecosystem?
-
- Is it a company or product?

Value Proposition Common Mistake

- Is it just a feature of someone else's product
- Is it a “nice to have” product
- Is it a “got to have” product
- Can it scale to a company?

Value Proposition - Discovery

- Product
 - Long term vision
 - Features
 - Benefits
 - Minimum Viable Product spec
- For a web/mobile app
 - Low fidelity MVP live and running
- Understand customer problem and solution
- Test Market Type

Product

- Problem Statement: What is the problem?
- Technology / Market Insight: Why is the problem so hard to solve?
- Market Size: How big is this problem?
- Competition: What do customers do today?
- Product: How do you do it?

Minimum Viable Product Test

- First, test your understanding of the problem
- Next test your understanding of the solution
 - Proves that it solves a core problem for customers
 - The minimum set of features needed to learn from earlyvangelists
- Interviews, demos, prototypes, etc.
- Lots of eyeball contact

Customer Test Results

- Potential customers contacted
 - Information/demonstrations given to potential customers
 - Or, low fidelity web/mobile app
- Potential customer reaction
 - Problem validated
 - Product capability
 - Willingness to purchase at various prices
 - Expectations for where and how to buy
 - Competitive comparison



Customer Segments

Market Type

	Existing	Re-segmented	New
Customers	Known	Possibly Known	Unknown
Customer Needs	Performance	Better fit Cheaper	Transformational improvement Cheaper/good enough
Competitors	Many	Many if wrong, few if right	None
Risk	Lack of branding, sales and distribution ecosystem	Market and product re-definition	Evangelism and education cycle
Examples	Google	Southwest	Groupon

Market Type Strategy Impact

- Customer adoption rate
- Marketing and sales strategies, including channels
- Cash and investment required

Market Type - Existing

- Incumbents exist, customers can name the market
- Customers want/need better performance
- Usually technology driven

- Positioning driven by product and how much value customers place on its features


- Risks:
 - Incumbents will defend their turf
 - Network effects of incumbent
 - Continuing innovation

Market Type – Re-segmenting Existing

- Low cost provider (Southwest)
- Unique niche via positioning (Whole Foods)
- What factors can:
 - you eliminate that your industry has long competed on?
 - Be reduced well below the industry's standard?
 - should be raised well above the industry's standard?
 - be created that the industry has never offered? (blue ocean)

Market Type – New

- Customers don't exist today
 - How will they find out about you?
 - How will they become aware of their need?
 - How do you know the market size is compelling?

 - Which factors should be created that the industry has never offered? (blue ocean)
- 

Market Type & Demand Creation

Existing

- Create, drive demand into your sales channel

Re-segmented

- Educate the market about what has changed
- Drive demand into channel

New

- Educate the market
- Identify/drive early adopters into your sales channels

Clone

- Copy a business

Corporate? Consumer?

- Business to Business (B to B)
 - Use or buy inside a company
- Business to Consumer (B to C)
 - Use or buy for themselves
- Business to Business to Consumer (B to B to C)
 - Sell a business to get to a consumer
 - Other Multi-sided Markets with multiple customers



Your Business Model Canvas

Adapted from: *Business Model Generation*, Alexander Osterwalder & Yves Pigneur
www.businessmodelgeneration.com

CANVAS OVERLAY

KEY PARTNERS	KEY ACTIVITIES	OFFER Value Proposition	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
	KEY RESOURCES		CHANNELS	
COST STRUCTURE			REVENUE STREAMS	

Customer Segments

- For whom are we creating value?
- Who are our most important customers?
- Segment examples
 - Mass market
 - Niche market
 - Segmented
 - Diversified
 - Multi-sided platforms

Value Propositions

- What value do we deliver?
 - Which of our customer's problems are we helping solve?
 - Which customer needs are we satisfying?
 - What bundles of products and services are we offering to each Customer Segment?
- Contributors to value**
- Newness
 - Performance
 - Customization
 - Cost reduction
 - Risk reduction
 - Convenience/usability
 - Design
 - Brand/status
 - Price

Customer Relationships

- What type of relationship does each Customer Segment expect?
- Which ones have we established?
- How costly are they?
- How are they integrated with rest of our business model?
- Categories of relationships
 - Personal assistance including dedicated
 - Self-service
 - Automated services
 - Communities
 - Co-creation

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, 2) Evaluation, 3) Purchase, 4) Delivery, and 5) Support

Revenue Streams

- For what value are customer willing to pay?
- For what do they currently pay?
- How are they currently paying?
- How do they prefer to pay?
- How do we set prices?
- How much does each Revenue Stream contribute to total company revenue?

Revenue generators

- Asset sale
- Usage fee
- Subscription fee
- Lending, renting, or leasing
- Licensing
- Brokerage
- Advertising

Key Resources

- What Key Resources do our Value Propositions require?
- Our Distribution Channels?
- Customer Relationships?
- Revenue Streams?
- Categories of resources
 - Physical
 - Intellectual
 - Human
 - Financial

Key Activities

- What Key Activities do our Value Propositions require?
- Our Distribution Channels?
- Customer Relationships?
- Revenue Streams?
- Categories of activities
 - Production
 - Problem Solving
 - Platform or Network

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?
- Cost structure may be Cost-driven or Value-driven or a hybrid
- Costs structure characteristics
 - Fixed costs
 - Variable costs
 - Economies of scale
 - Economies of scope

Key Partnerships

- Who are our Key Partners?
- Who are our key suppliers?
- Which Key Resources do we acquire from partners?
- Which Key Activities do partners perform?
- Partnership motivations
 - Optimization and economies of scale
 - Reduction of risk and uncertainty
 - Acquisition of particular resources and activities

Summary

- Value proposition
 - Likely varies by customer segment
 - Not what *you* think; determined by your customers
- Market type determines strategy and helps define required funding
- Customer types
 - Deep understanding of who and how
 - Buying process is critical to your success and your funding
- Prospective customer engagement and learning
- Business model clarity vital to economic success
- Business model canvas integrates your learning; iterate it!

Contact



Topic	Contact
Charlotte Venture Challenge	Devin Collins devin.collins@uncc.edu
Venture Development and Business Advisory Services	Marilyn Carpenter marilyn.carpenter@ventureprise.org
Ventureprise Charlotte Regional Strategy	Paul Wetenhall paul.wetenhall@ventureprise.org



Ventureprise, Inc.
Ben Craig Center
8701 Mallard Creek Rd.
Charlotte, NC 28262
704 548-9113
www.ventureprise.org