Lean Startups and the Business Model Canvas
Mandela Washington Fellowship Reciprocal Exchange
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Course Summary: The purpose of this course is to teach the basics of Lean Startups and the Business Model Canvas to entrepreneurs in Arua, Uganda. The course is broken into eight sessions covering the nine boxes of the Business Model Canvas, a quick one-page business plan document devised by Alexander Osterwalder and explained in detail in his book, *Business Model Generation*. The Business Model Canvas replaces the traditional business plan document for new businesses and startups looking to find markets and customers for their products. *The Lean Startup* by Eric Ries takes this one step further by creating the Build-Measure-Learn loop of continuous improvement, utilizing the Business Model Canvas as a tool for documentation and customer interviews as the path of discovery for startups and new businesses, as they look to quickly change directions (or pivot) as they operate with minimal resources.

Over the course of three weeks, including eight educational sessions and a concluding demo day, new entrepreneurs and business owners in Arua, Uganda, will be exposed to the tools and tricks necessary to create scalable businesses while having limited resources. This course is funded through a grant by the Mandela Washington Fellowship Reciprocal Exchange program. The Mandela Washington Fellowship is a program of the U.S. Department of State with funding provided by the U.S. Government and administered by IREX. For more information about the Mandela Washington Fellowship for Young African Leaders, please visit the Fellowship's website at www.mandelawashingtonfellowship.org.

Class Schedule (subject to change):
* Sessions in BOLD are required.

Date	Topic	Description
July 25	**Session 1: Team Building and Basics of Lean Startups**	**Getting to know the cohort and an overview of what is in store for the next three weeks.**
July 26	Office hours	<u>Optional</u> open discussion and review of previous sessions. Focus on session 1.
July 27	**Session 2: The Value Proposition**	**Summarizing your business in one sentence.**
July 28	Office hours	<u>Optional</u> open discussion and review of previous sessions. Focus on session 2.
July 29	**Session 3: Customer Discovery and Customer Segments**	**Who are you selling to and why are you selling to them?**
August 1	**Session 4: Customer Channels**	**How do you offer value to your customers?**
August 2	Office hours	<u>Optional</u> open discussion and review of previous sessions. Focus on session 3 and 4.
August 3	**Session 5: Customer Relationships**	**How do you GET-KEEP-GROW your business?**
August 4	Office hours	<u>Optional</u> open discussion and review of previous sessions. Focus on session 5.
August 5	**Session 6: Revenue Streams and Cost Structure**	**Money in and money out!**
August 8	**Session 7: Key Activities, Partners, and Resources**	**How to guess, strategically.**
August 9	Office hours	<u>Optional</u> open discussion and review of previous sessions. Focus on session 6 and 7.
August 10	**Session 8: Putting The Pieces Together**	**The Business Model Canvas as a whole and an overview of pitch decks.**
August 11	Office hours	<u>Optional</u> open discussion and review of previous sessions. Focus on demo day.
August 12	**Demo day**	**A celebration of three weeks of hard work!**

Session 1: Team Building and Basics of Lean Startups

At the beginning, all businesses are startups.
- Some startups become small businesses.
- Other startups are fast-scaling and perfect for large quantities of investment money.

What are Lean Startups?
- A lean startup is able to test and pivot rapidly.
- A process of continuous Innovation
- Find Product-Market Fit through this cycle

Build-Measure-Learn Loop
- **Build** the MVP
- **Measure** through Customer Discovery
- **Generate** to-do list → Kanban, Agile/Scrum

The Lean Startup BY ERIC RIES

IDEAS

Learn Faster — LEARN
Split Tests
Customer Interviews
Customer Development
Five Whys Root Cause Analysis
Customer Advisory Board
Falsifiable Hypotheses
Product Owner Accountability
Custom Archetypes
Cross-functional Teams
Smoke Tests

DATA

Minimize total time through the loop

CODE

Code Faster — BUILD
Unit Tests
Usability Tests
Continuous Integration
Incremental Deployment
Free & Open-Source Components
Cloud Computing
Cluster Immune System
Just-In-time Scalability
Refactoring
Developer Sandbox

Measure Faster — MEASURE
Split Tests
Clear Product Owner
Continuous Deployment
Usability Tests
Real-time Monitoring
Customer Liason

Funnel Analysis
Cohort Analysis
Net Promoter Score
Search Engine Marketing
Real-time Alerting
Predictive Monitoring

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Keep track of your progress! The best way to keep track of progress is the
Business Model Canvas.
- Briefly summarize points on canvas.
- Value proposition statement is the key to everything.
- Determine metrics for success as you go along.
- Filling out early versions of your Business Model Canvas is mostly guesswork at first.
- As you get closer to Product-Market Fit, those guesses transform into statements backed up with evidence.
- *Talking To Humans* is the primer for customer discovery.

Session 2: The Value Proposition

The Value Proposition box is the center of the canvas because it is **the most important and first step in developing your startup**.
- Why? It's how you provide value!
- Removing pains and increasing gains

What makes a good value proposition?
- Customers would actually say it
- Customers understand it immediately
- It's directly tied to the benefit of the customer
- It's unique to your business and delivered by you

Your Value Proposition Statement is a hypothesis.

What makes a good hypothesis?
- Must be falsifiable
- Must avoid validation bias, and the opposite statement should not be obvious
- Must be targeted
- Highlights critical questions about your business model.

The **Value Proposition Canvas** and the **Ad-Lib Worksheet** are two tools frequently used to map out your hypothesis.

Session 3: Customer Discovery and Customer Segments

Who is a "customer"? Anyone who stands between you and money!

- Buyer
- User
- Reseller
- Manufacturer
- Distributor
- Etc.

What are customer segments? A customer segment is the portion of the total market on which you are focused. ***Your market is not "everyone"!***
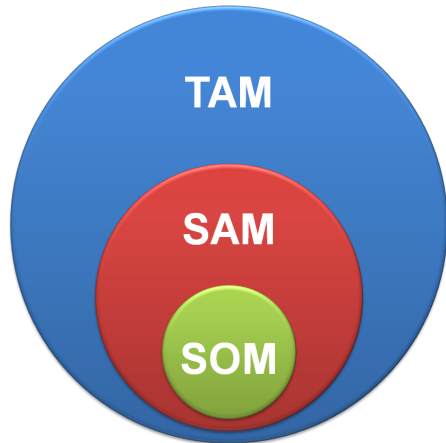
TAM = total available market (everyone)
SAM = serviceable available market
TM = target market
(or **SOM** = serviceable obtainable market)

How do you determine TAM / SAM / TM ?
Customer discovery!

What is customer discovery? A hypothesis-driven process that asks a structured set of questions to validate or invalidate your hypothesis.

What it is not: A sales pitch or yes/no questions.

What's the best way to conduct customer discovery interviews?
- Face-to-face interviews are the best.
- Zoom/video calls (with cameras on) can be done as well.
- Phone calls are ok, but not as good as face-to-face or video.
- Surveys and questionnaires should only be used as a filter to generate leads for face-to-face or video interviews.

Some guidelines for customer discovery:
- Generate 5-7 open-ended questions and have a conversation with your interviewee.
- Try to validate or invalidate your hypothesis.
- **DO NOT SELL! DO NOT DEMO A PRODUCT!**
- Over the course of the next few weeks, try to talk to 100 different people
- You should learn about the problems each person you interview is having, and what they are doing to solve it now.
- Share what you have learned with your customers. This provides value to them.
- Ask "why" as much as you can.
- Listen for the unexpected and look for surprises.
- "What are the top three things you could change and why?"

Session 4: Customer Channels

What are customer channels?
- Channels are the ways your product or service reaches your customer segments.
- Product types: **Physical** and **Virtual**
- Channel types: **Direct**, **Indirect**, and **Hybrid**

Some example channel types include OEMs, Retailers, Value-Added Reseller, Distributor, Web Sites and eCommerce, Direct Sales, Aggregators

What is the best way to meet my customer's needs? Pick from the list above based on how you interface with your customers and the type of products you sell.

Direct Sales	Distributor Sales
- They are employees - Risky if hired too fast - Loyalty to you	- Not your direct employees - Risky if better competitors emerge in your space - Loyalty is to the customer, not you

Make customer channels part of your customer discovery!
- How do you buy products like ours?
- Direct, distributor, online, retail?
- How do you learn about new or improved products?
- What is the deciding factor in using that channel?

Session 5: Customer Relationships

Demand creation can be done through both free and paid channels. This is how you feed potential customers into the top of the funnel. **Expensive advertising is not the only way to bring in potential customers!**

Free Demand Creation Channels
- Blogging
- Online communities
- Social media
- Speeches
- Guest articles and publications

Paid Demand Creation Channels
- Public relations firms
- Advertising
- Trade Shows
- Consultants

Be aware of your customer segment(s)! You only want to GET people from your specific customer segment(s)! Utilize ability of free/paid tools to target your messaging by:
- Who they are
- What they buy from you
- What channels they use

CAC = customer acquisition cost
LTV = lifetime value
Churn = percentage of customers who don't return (usually measured by month)

LTV > CAC
Lower churn, higher LTV

Viral Loops = Taken from the term "going viral" on the Internet – a self-reinforcing loop that brings in new customers with minimal or no work on your part

GET phase definitions:

Awareness – potential customers drawn into this stage through marketing campaigns and consumer research and discovery
Interest – potential customers learn a bit more about the company and its products
Consideration – potential customers are nearly ready to purchase from you or a competitor – it's time to close the deal!
Acquire – similar to awareness/interest stages
Activation – similar to the purchase stage, trial software is already on the customer's phone or computer, requiring a simple online purchase to fully bring the customer onboard.

GROW phase definitions:

Up-sell – selling an existing customer a better product.
Cross-sell – similar category or complementary product to what has already been sold to customers.
Next-sell – follow up after purchase with an exclusive offer only for existing customers.
Unbundling – selling parts of a whole product separately.

Session 6: Revenue Streams and Cost Structure

This session is not legal or tax advice. Please contact a local professional for advice beyond what is presented here.

Revenue Streams = money **in**
Cost Structure = money **out**

Gross Profit = money **in**
Net Profit = money **in** – money **out**

Your revenue streams and cost structure should change over the lifetime of your business.

In theory, both of them will increase in size, with revenue streams increasing in size faster than costs.

Revenue Streams can be **direct** or **ancillary**.

Direct Revenue Streams	Ancillary Revenue Streams
- Asset Sale - Usage Fee - Subscription - License - Rental or Leasing - Advertising - Upsell/Next Sell/Cross Sell - Administrative Fees	- Referrals - Affiliate - Customer Lists/Customer Data

Pricing can be **static** or **dynamic**.

Static Pricing	Dynamic Pricing
- Standard: Cost Plus Markup - Price tiers based on volume - Price tiers or packages based on value to consumer - Price tiers to be competitive with other businesses	- Negotiation – haggling - Auctions - Yield-based – supply versus demand - Real-time markets – stocks, commodities

When you work with suppliers or contractors, pay attention to the payment terms. **Standard payment terms are "Net 30," where payment is due within 30 days**. Some large companies and organizations use "Net 60" or "Net 90" – you may not see payment from them for 2 or 3 months.

Some costs can be controlled or budgeted:
- Rent
- Utilities
- Licensing Fees
- Cost of goods (depending on market)
- Cost of labor
- Technology
- Insurance and taxes

Runway = the amount of money a business has left before it has to shut down or declare bankruptcy.

Session 7: Key Activities, Partners, and Resources

Key Activities = the most important tasks a company must do in order for the business model to work

The 3 P's:
- **Production** = **make** the thing
- **Problem-solving** = **solve** the thing
- **Platform** = **deliver** the thing

Key Partners = the network of suppliers and partnerships that a company must have in order for the business model to work

- **Strategic alliance** (physical and virtual) = noncompetitive companies working together to improve each other
- **Coopetition** (physical and virtual) = competitive companies working to share costs and increase market size
- **Key suppliers** (physical and virtual) = parts of the supply chain you need to use in order for your business to run
- **Joint new business** (physical and virtual) = sell someone else's product under your brand name
- **Traffic partners** (virtual only) = sharing of customers and info between Web sites

Interview your potential partners the same way you would interview potential customers!

Key Resources = the most important things a company must have in order for the business model to work

- **Financial** resources: cash on hand, burn rate/runway
- **Physical** resources: buildings, vehicles, machines
- **Human** resources: employees
- **Intellectual** resources: patents, trademarks, brand

At the beginning, these three boxes are just guesses.
- Customer discovery points you in the correct direction
- Trial and error, networks get you closer to the answer
- Consider interviewing potential partners the same way you have been interviewing potential customers

Session 8: Putting the Pieces Together

Slides you need for your final presentation on demo day:

1. **Company name**
    a. Something to identify you and your company at the beginning of the presentation.
    b. Don't include contact information until the end of the presentation.

2. **Problem**
    a. Tell us a story!
    b. Describe the pain(s) that you are eliminating or the gain(s) you are providing from your Value Proposition Canvas.
    c. This is where you catch the attention of the audience.

3. **Value Proposition**
    a. This is where you give us your Value Proposition statement from the ad-lib worksheet.
    b. Explain how you are removing pain or increasing gain.
    c. Don't talk about your competition just yet.

4. **Solution**
    a. Describe your business in less than a minute.
    b. Less text, more pictures, the better.
    c. If you have a tech product, you can show mockups here or (if you're really brave) try a live demo.
    d. If you have a physical product, show it to the audience!

5. **Market Opportunity**
    a. This is where you talk about TAM, SAM, and TM.
    b. Best displayed as a graph or image.
        i.   TAM is the entire market worldwide, has the largest circle.
        ii. SAM is market within your reach, smaller circle inside TAM.
        iii. TM is percentage of market you strive to take, smallest circle.

6. **Channels**
    a. How are you going to reach your customers?
    b. Tell us about the process:
        i.   Direct versus indirect versus hybrid channels
        ii. Physical versus virtual product
        iii. Direct versus distributor sales

7. **Customer Relationships**
    a. GET – KEEP – GROW
    b. Make sure you discuss CAC, LTV, and customer churn – standalone numbers and percentages look great here
    c. You can also discuss how you plan to get customers into the funnel in your business

8. **Revenue Streams and Cost Structure**
    a. This is where you brag about how much money this business is making and will make over the next 3 years.
    b. Graphics work the best here – usually two lines for money in and money out, with an arrow between showing profit/margins.
    c. Remember, financial projects are merely educated guesses based on your research and current sales.

9. **Competitive Analysis**
    a. This is where you discuss the superiority of your business over the competition
    b. Two good ways to display this:
        i. Two-by-two box with two metrics as which you excel.
        ii. Chart with three or four features you have all of, and your competition may only have one or two.

10. **Your Timeline**
    a. What have you done so far?
    b. What is your plan for the next year or two? Growth? Expansion? Hiring?
    c. A graphical line with 3-5 checkpoints works the best.

11. **Your Ask**
    a. What would you like your audience to do?
    b. QR codes and short Web addresses are key if you have a digital product as part of the ask.

12. **The Team**
    a. Picture of you (and the rest of your team, if applicable)
    b. Your qualifications (title, years of experience, education) and the qualifications of any other team members or advisors

13. **Closing Slide with Contact Information**
    a. This is where you have your contact information, so people can follow up with you later.
    b. Include your logo and company name on this slide – copy and paste this from the first slide.