

# Creating Start-Up Success 101

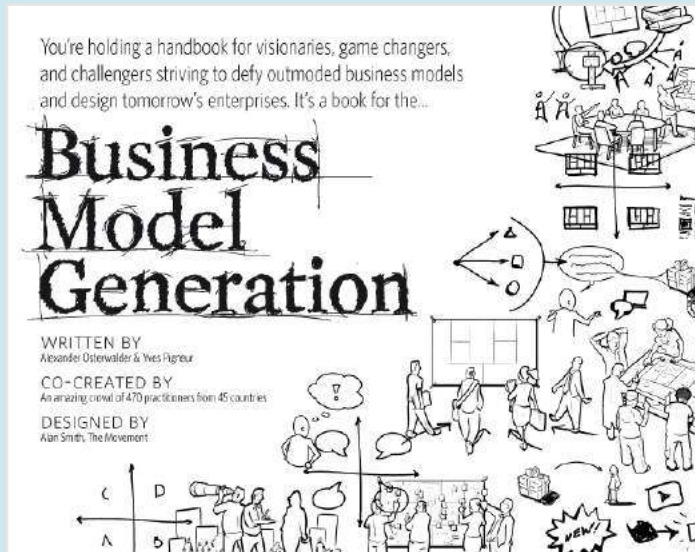
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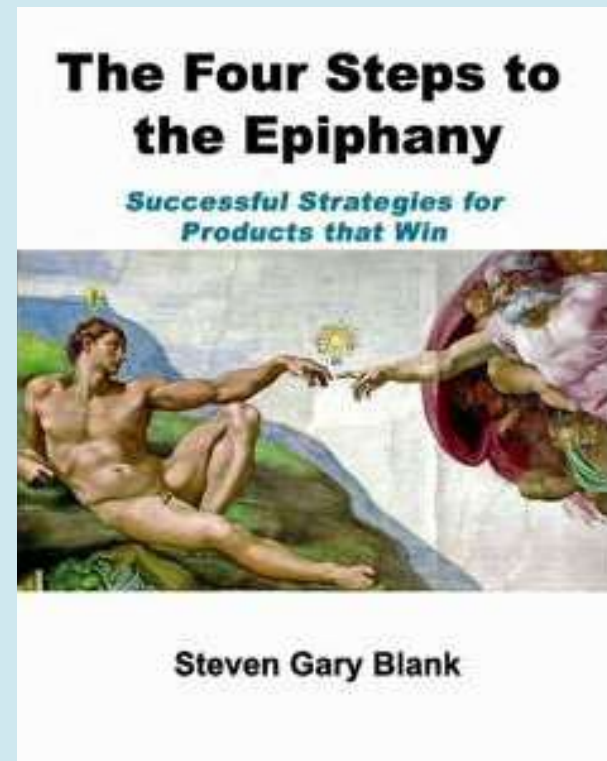
Contribution by [Alan Smith @thinksmith](https://twitter.com/thinksmith)



THIS PRESENTATION COMBINES TWO GLOBAL BESTSELLERS



+



[BusinessModelGeneration.com](http://BusinessModelGeneration.com)

[StevenBlank.com/books.html](http://StevenBlank.com/books.html)

So what makes for a  
successful start-up?

Start with a brilliant  
founder like...

Mike, 34  
Stanford  
Alumnus



he used to be an...

# Experienced Exec



All his operating  
experience built up  
some...



...member in  
...research technol  
...operations covering all  
...responsible for project ma  
...projects.

Major Accomplishments

- Produced state of the  
• Development of  
• Research  
• Curriculum

...outstanding  
credentials!

One day Mike has...

A “killer”  
product idea!



A “killer”  
product idea!  
he’s really  
passionate about it



Mike's experienced.

He knows how to test his  
idea using...



...market  
research

The research looks good!

Mike moves forward, and  
writes a fantastic....

# Business Plan





Great!

Based on the **credentials**,  
**research**, and **plan**, Mike has  
secured the final piece...



...VC Funding!

Money in hand,  
Mike get's started on

A silhouette of a construction site at sunset. A large tower crane is the central focus, with its long jib extending across the top of the frame. Several construction workers are visible in silhouette, working on a structure. The sky is a warm, golden-orange color, and the overall scene is backlit by the setting sun.

...building his  
start-up.

He makes the headlines  
of every major...

AL ESTATE

MARKETS

Weekly market indicators  
INDEXES

BUSINESS

... and is invited to give...

...keynote talks







Mike and his  
start-up are  
on a roll!

How likely is his  
business to  
succeed?

Despite the experience,  
research and plan...



...Mike  
slipped up.

Let's help Mike  
with 5 things he  
didn't know.

1

*No business  
plan survives  
the first  
customer  
contact.*

Sticking to a planning document works for a known future, not for a start-up context.

Plan's fail in start-ups.



2

*It's the  
business  
model,  
stupid.*



Hey Mike, your plan was  
to build a company, but  
did your plan include a  
Business Model?



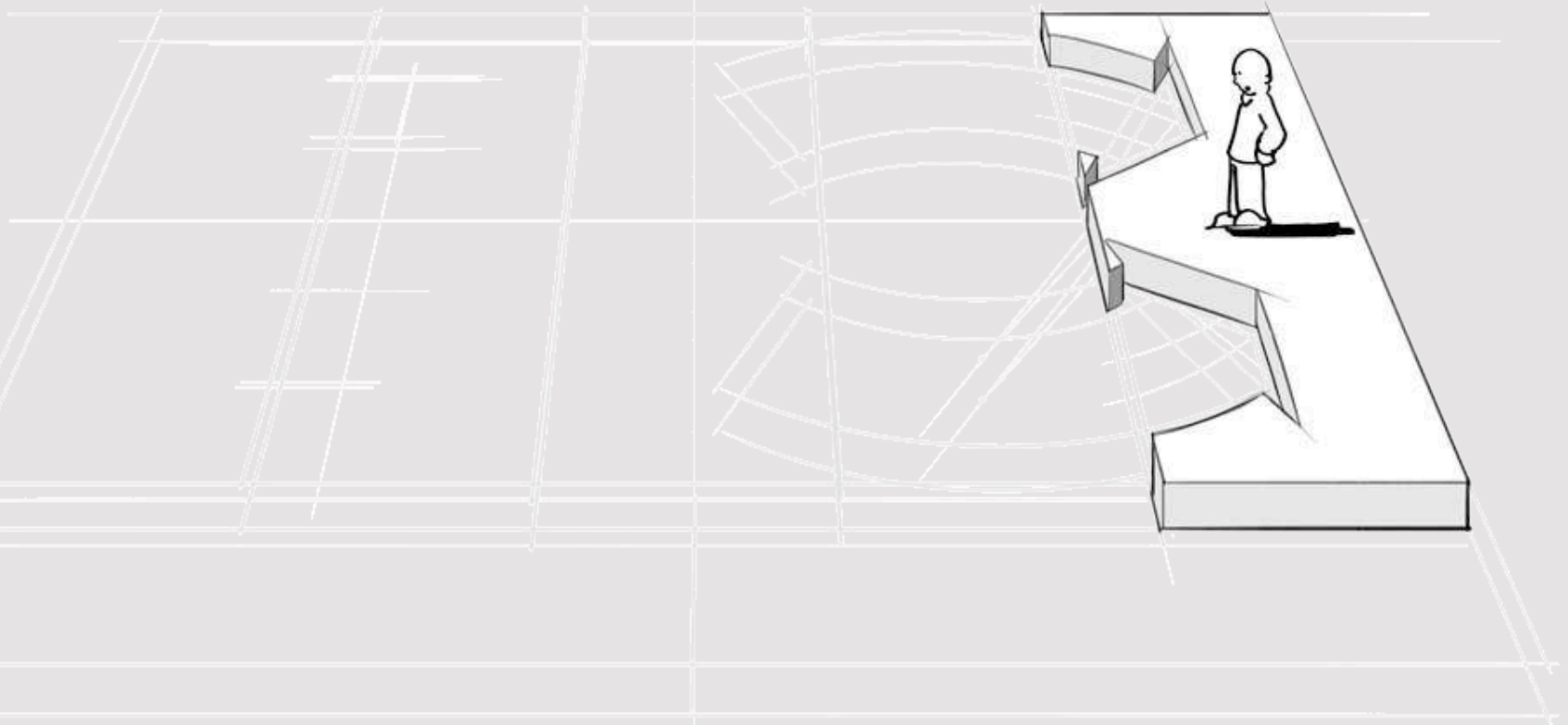
THE VITAL PART OF A  
CONSIDERATION

11. **DEFINITION.**—A contract which induces a party to perform a substantial part of the contract. It is the substance of the contract inducing the parties to perform it. A SUFFICIENT

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

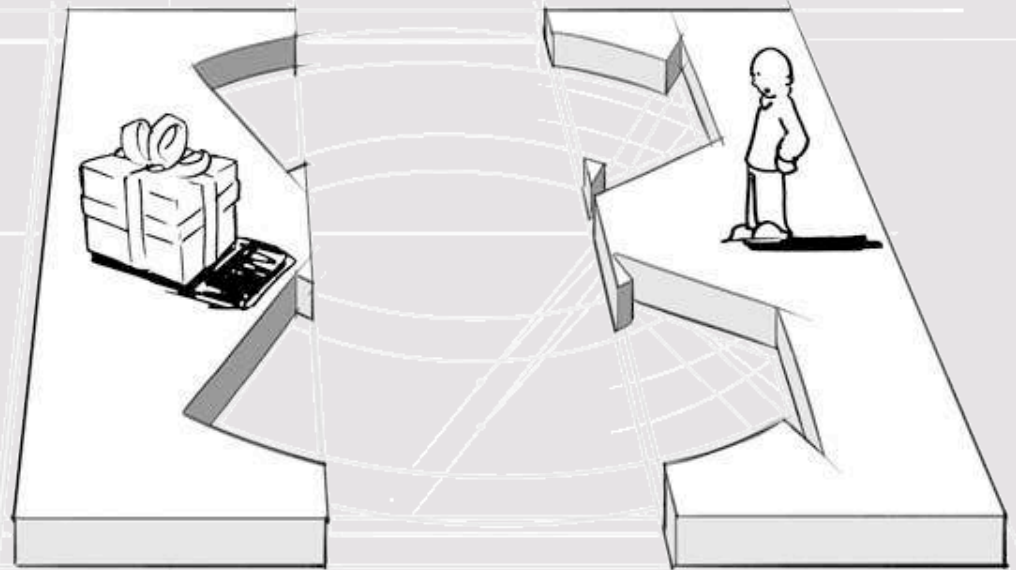
Here are the 9 building blocks of a business model:

# CUSTOMER SEGMENTS



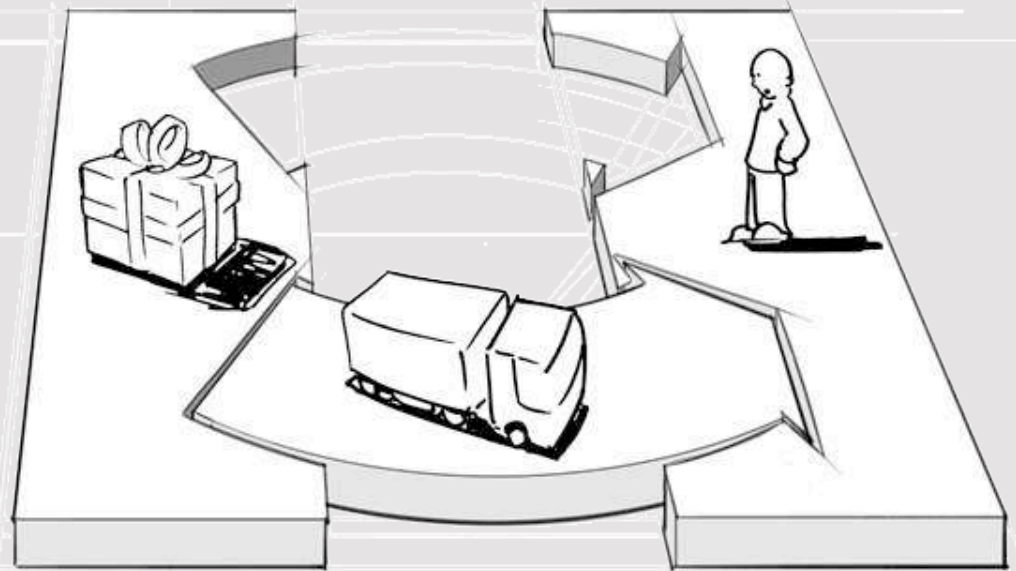
which customers and users are you serving?  
which jobs do they really want to get done?

# VALUE PROPOSITIONS



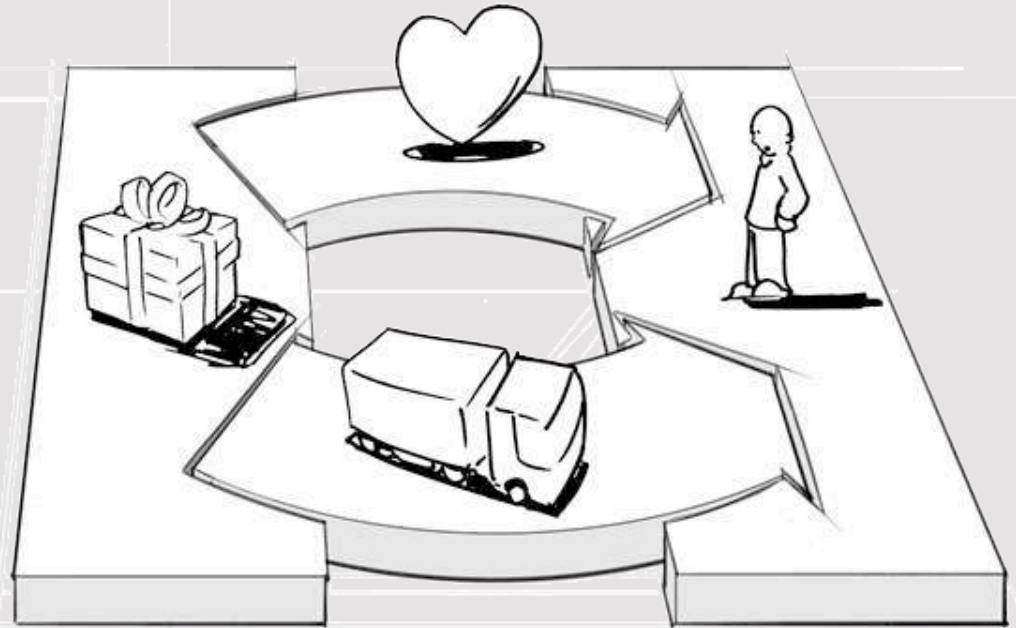
what are you offering them? what is that getting done for them? do they care?

# CHANNELS



how does each customer segment want to be reached?  
through which interaction points?

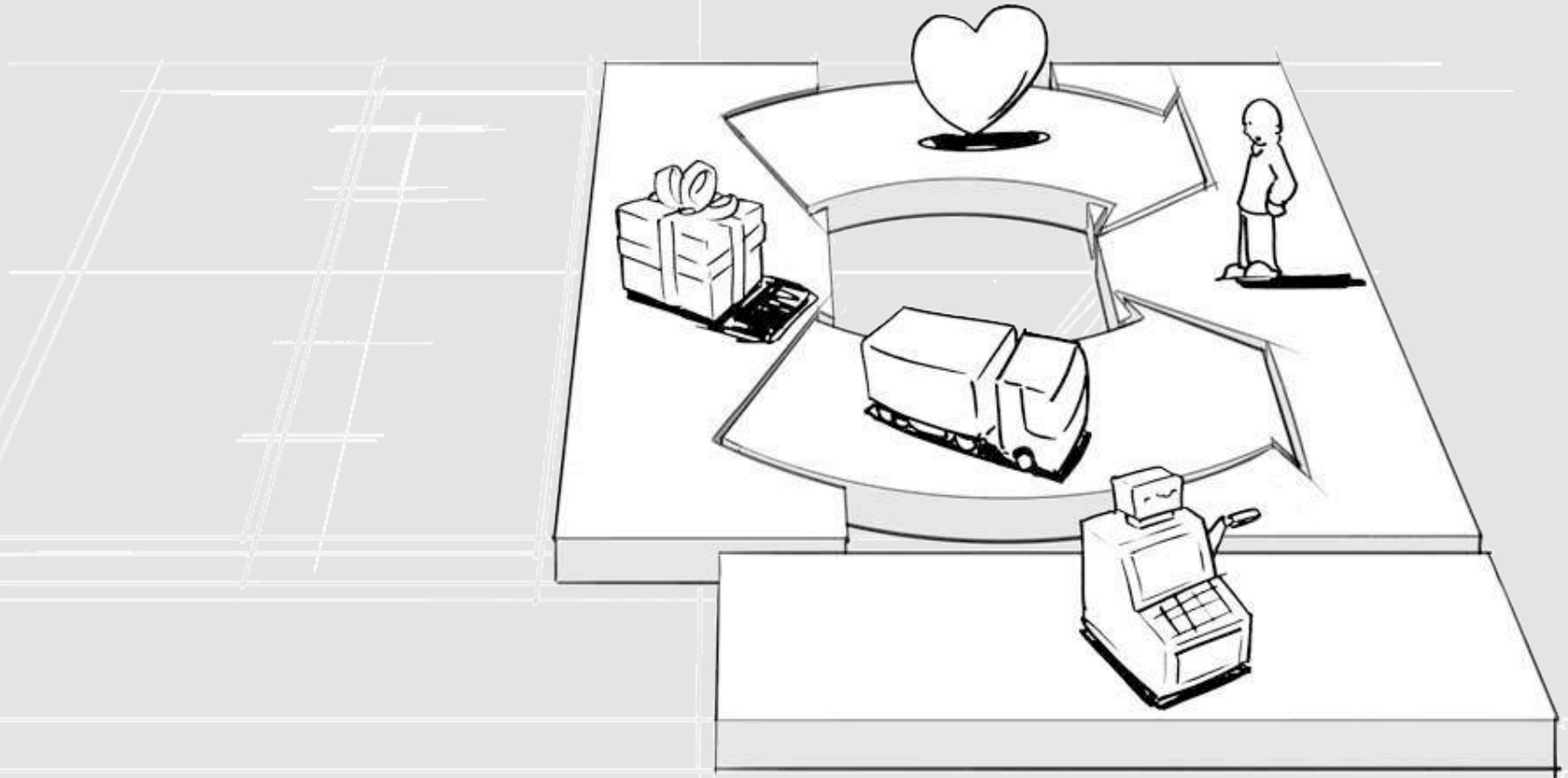
# CUSTOMER RELATIONSHIPS



what relationships are you establishing with each segment?  
personal? automated? acquisitive? retentive?

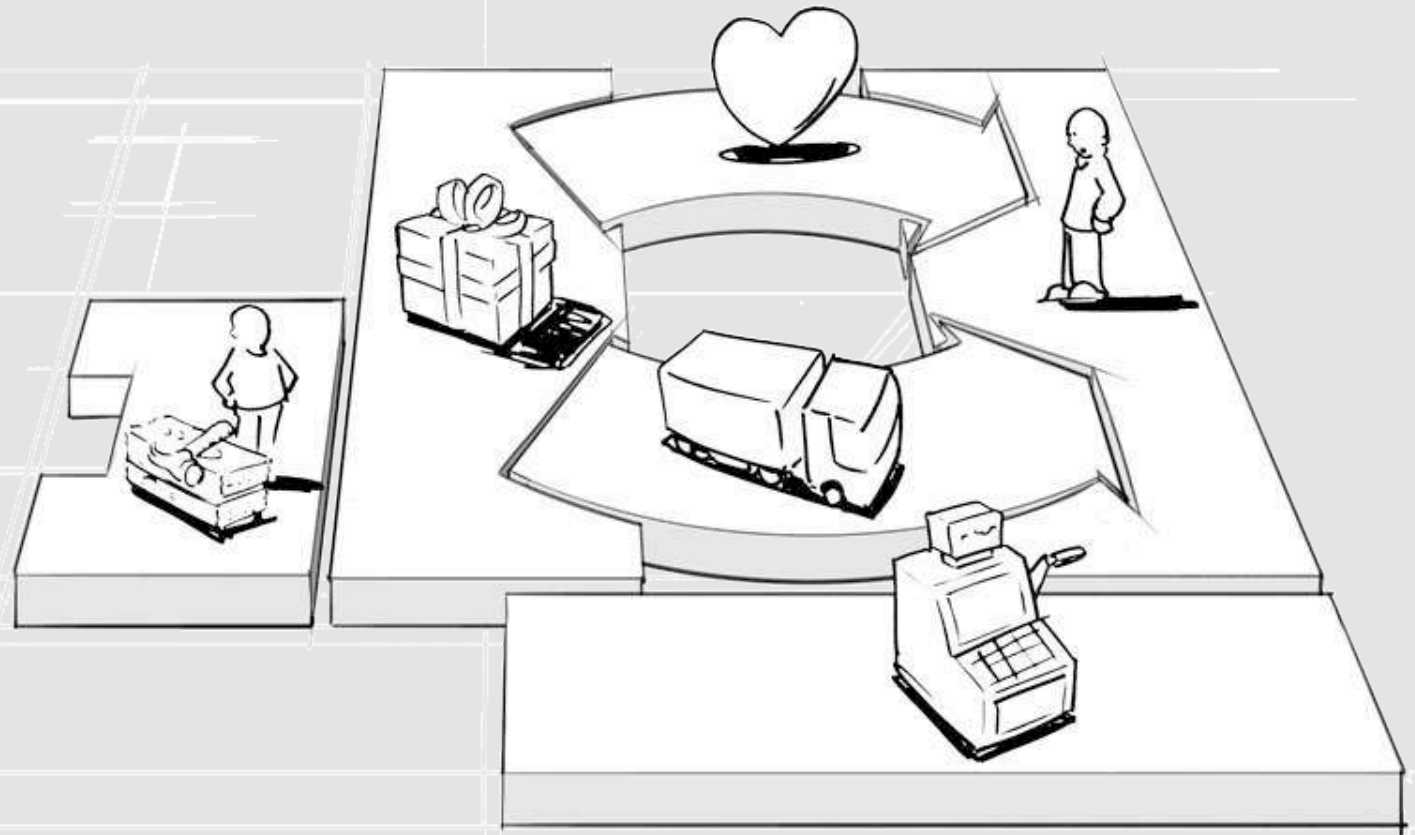


# REVENUE STREAMS



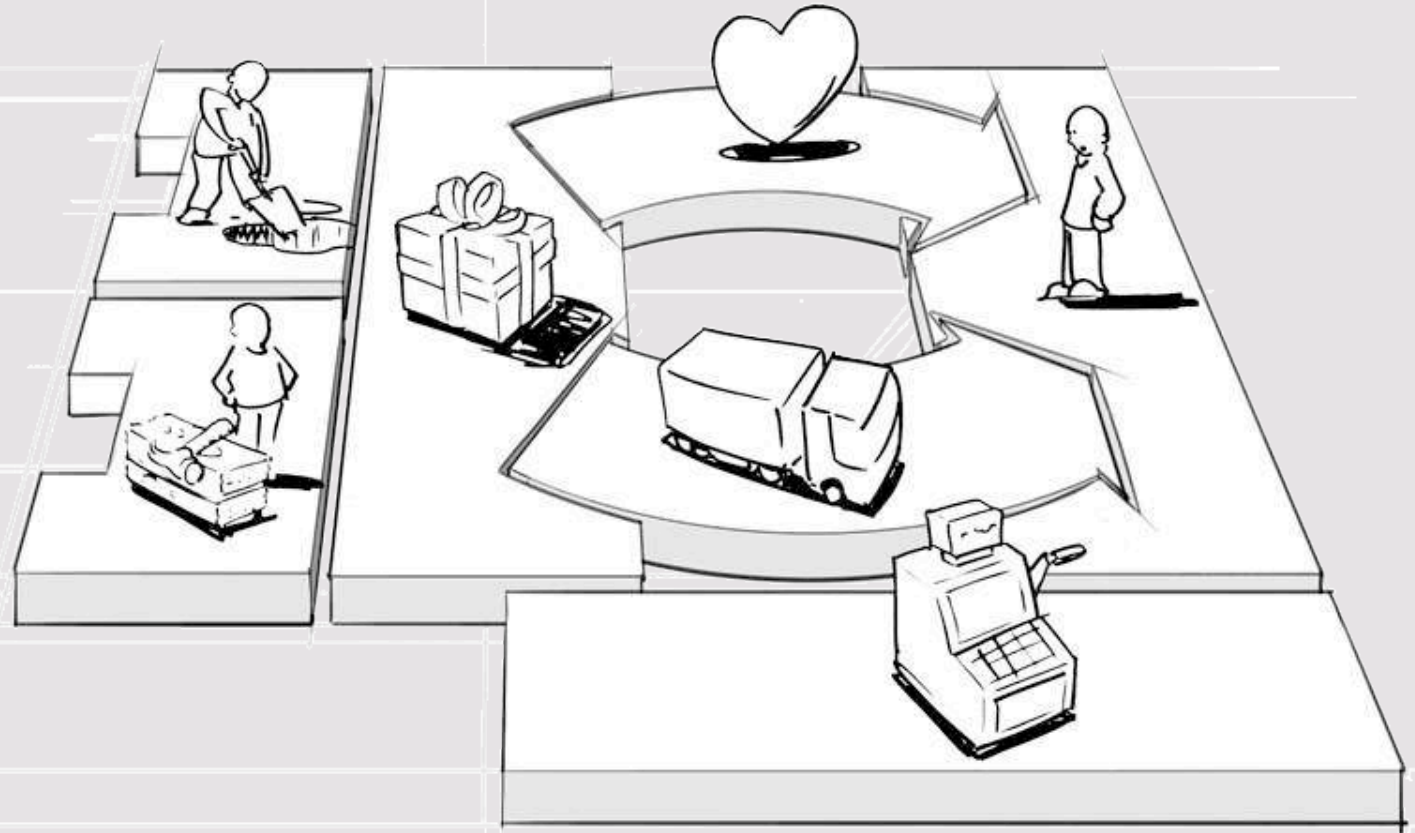
what are customers really willing to pay for? how?  
are you generating transactional or recurring revenues?

# KEY RESOURCES



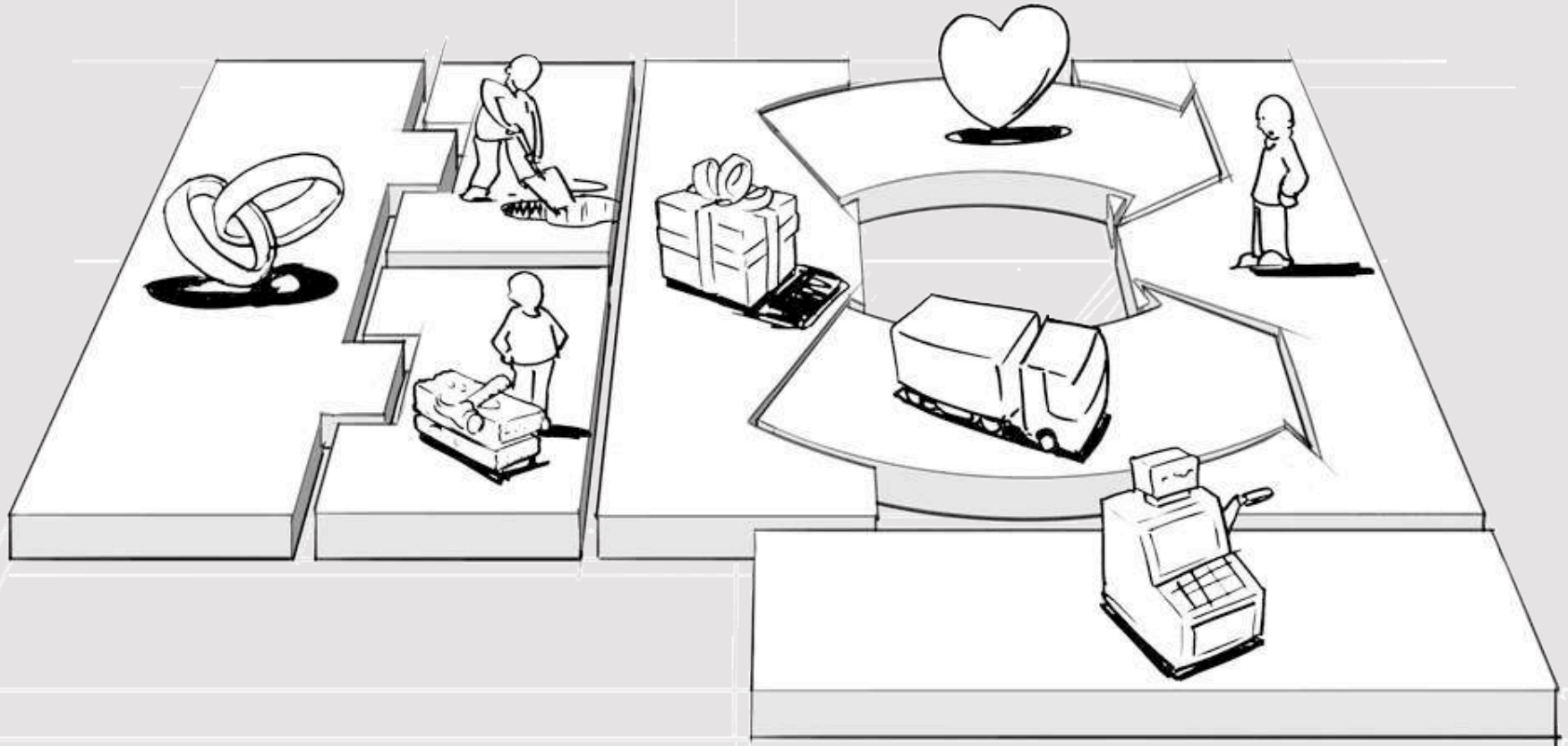
which resources underpin your b.model?  
which assets are essential?

# KEY ACTIVITIES



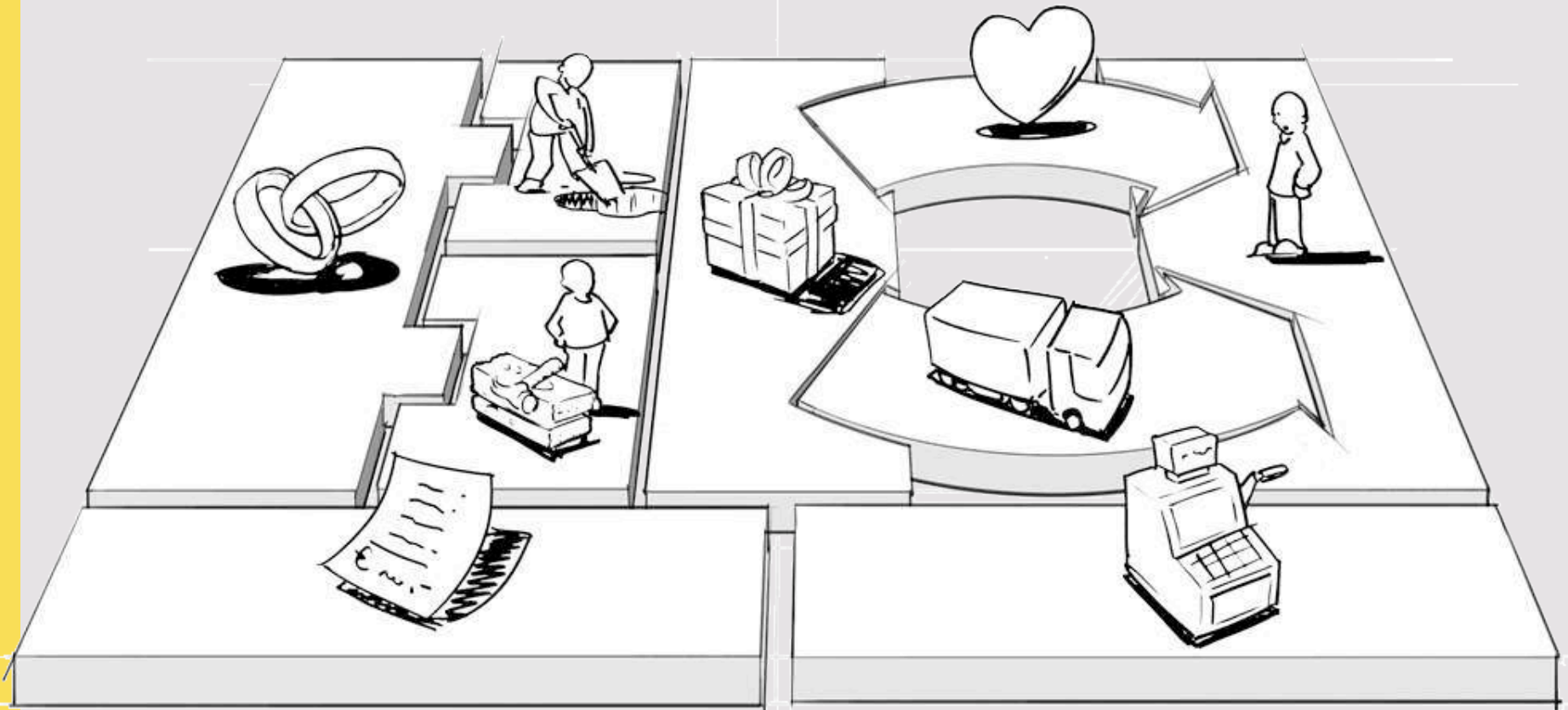
which activities do you need to perform well in  
your b.model? what is crucial?

# KEY PARTNERS

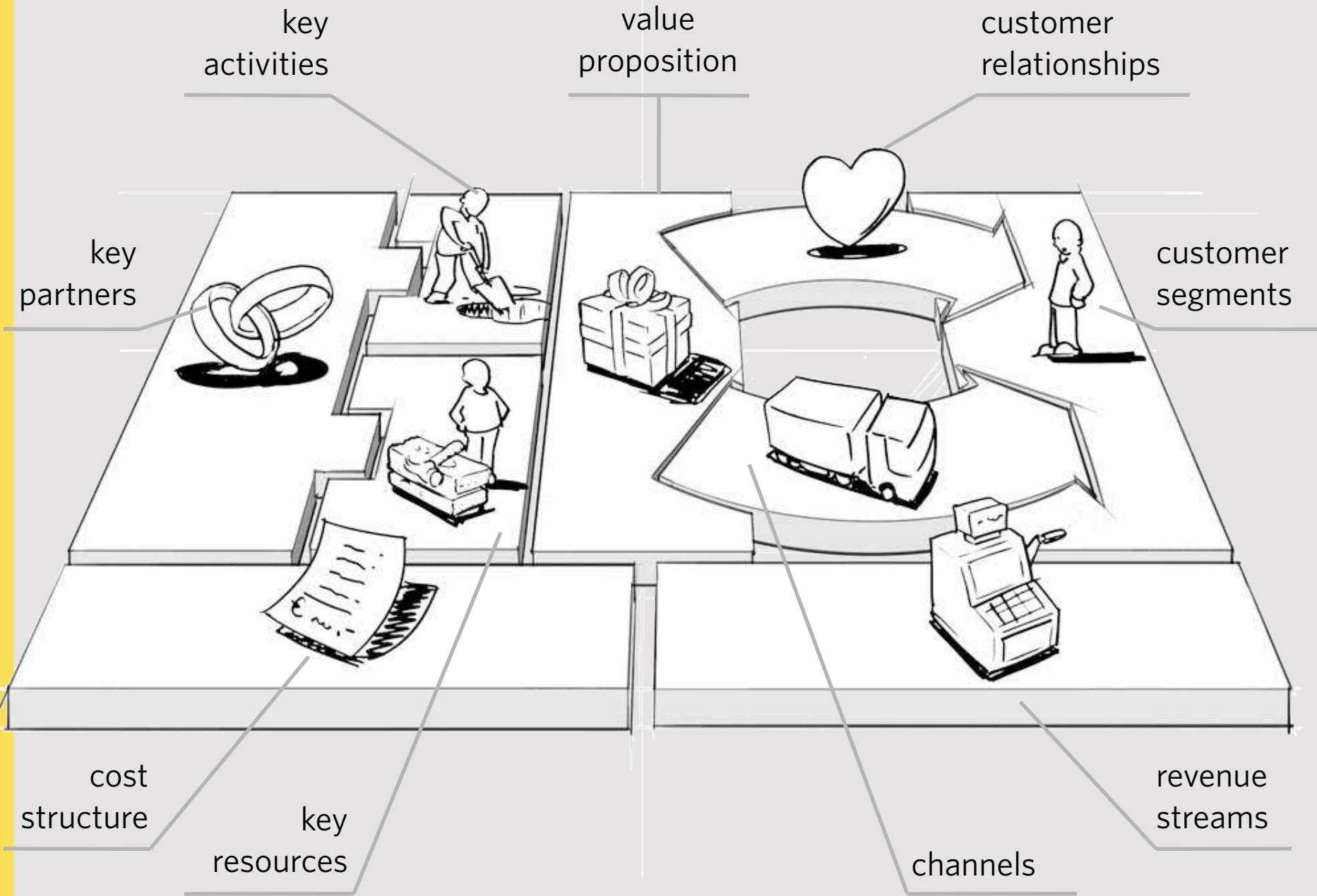


which partners and suppliers leverage your model?  
who do you need to rely on?

# COST STRUCTURE



what is the resulting cost structure?  
which key elements drive your costs?



*“Hmm, interesting so  
what do I make of  
that?”*



use it as a tool to...





# The Business Model Canvas

Designed for:

Designed by:

On: \_\_\_\_\_  
Duration: \_\_\_\_\_

## Key Partners



Who are our Key Partners?  
Who are our Suppliers?  
Which Key Resources do we acquire from partners?  
Which Key Activities do partners perform?  
**Business Model Canvas**  
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## Key Activities



What Key Activities do we perform to create Value Propositions required by our Customers/Channels?  
Customer Relationship?  
We create channels?  
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## Value Propositions



What value do we deliver to the customer?  
What is our value proposition?  
What bundle of products and services are we offering to each Customer Segment?  
What customer needs are we addressing?  
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## Customer Relationships



What type of relationship does each of our Customer Segments expect to be able to establish with their provider?  
Which ones have we established?  
How are they integrated with the rest of our business model?  
How costly are they?  
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## Customer Segments



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



What Key Resources do we require to perform Key Activities required by our Customers/Channels/ Customer Relationships/ Revenue Streams?  
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## 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 are most cost efficient?  
How are we integrating them with customer contact?  
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## Cost Structure

What are the most important costs, where? (How do we incur costs?)  
Which Key Resources are most expensive?  
Which Key Activities are most expensive?  
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## Revenue Streams

For what value are our customers really willing to pay?  
How much are they willing to pay?  
How are they paying?  
How much does each Revenue Stream contribute to overall revenues?  
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# The Business Model Canvas

Designed for:

Designed by:

On: \_\_\_\_\_  
 Duration: \_\_\_\_\_

## Key Partners



Who are our Key Partners?  
 Who are our Suppliers?  
 Which Key Resources do we acquire from partners?  
 Which Key Activities do partners perform?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003

## Key Activities



What Key Activities do we Value Proposition require?  
 Can Customers/Channels?  
 Customer Relationships?  
 We create through?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003

## Value Propositions



What value do we deliver to the customer?  
 What is our (or our Customers') customers are we helping to solve?  
 What bundles of products and services are we offering to each Customer Segment?  
 Which customer needs are we addressing?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003

## 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?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003

## Customer Segments



For whom are we creating value?  
 Who are our most important customers?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003

building block

## Key Resources



What Key Resources do we Value Proposition require?  
 Can Customers/Channels? Customer Relationships?  
 Service Channels?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003

## 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 are most cost efficient?  
 How are we integrating them with customer contact?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003

## Cost Structure

What are the most important costs, should I have fixed costs?  
 Which Key Resources are most expensive?  
 Which Key Activities are most expensive?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003



## Revenue Streams

For what value are our customers really willing to pay?  
 How much are they currently paying?  
 How are they currently paying?  
 How much are they willing to pay?  
 How much does each Revenue Stream contribute to overall revenues?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2003



# The Business Model Canvas

Designed for:

Designed by:

On: \_\_\_\_\_  
 Duration: \_\_\_\_\_

## Key Partners



Who are our Key Partners?  
 Who are our Suppliers?  
 Which Key Resources do we acquire from partners?  
 Which Key Activities do partners perform?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002

## Key Activities



What Key Activities do we Value Proposition require?  
 Can Customers Channel?  
 Customer Relationship?  
 We create channels?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002

building block

## Value Propositions



What value do we deliver to the customer?  
 What is our (or our customers') customer and we helping to solve?  
 What bundles of products and services are we offering to each Customer Segment?  
 Which customer needs are we addressing?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002

building block

## Customer Relationships



What type of relationship does each of our Customer Segments expect to be able to maintain with us?  
 Which ones have we established?  
 How are they integrated with the rest of our business model?  
 How costly are they?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002

## Customer Segments



For whom are we creating value?  
 Who are our most important customers?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002

building block

## Key Resources



What Key Resources do we Value Proposition require?  
 Can Customers Channel?  
 Customer Relationship?  
 Service Teams?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002

building block

## 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 are most cost-effective?  
 Which ones are most cost-effective?  
 How are we integrating them with customer contact?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002

## Cost Structure

What are the most important costs, drivers? (How do we reduce them?)  
 Which Key Resources are most expensive?  
 Which Key Activities are most expensive?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002



## Revenue Streams

For what value do our customers really willing to pay?  
 How much are they currently paying?  
 How are they paying?  
 How much does each Revenue Stream contribute to overall revenues?  
Source: Chesbrough, 2003; Johnson and Christensen, 2000; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002; Prahalad and Ramamoorti, 2002



# The Business Model Canvas

Designed for:

Designed by:

On:

Duration:

## Key Partners



Who are our Key Partners?  
Who are our Suppliers?  
Which Key Resources do we acquire from partners?  
Which Key Activities do partners perform?  
Key Partnerships:  
Distribution  
Manufacturing  
Procurement  
Logistics  
Research and Development  
Selling and Marketing

## Key Activities



building  
block

building  
block

building  
block

## Value Propositions



What value do we deliver to the customer?  
What is our value proposition?  
Which bundles of products and services are we offering to each Customer Segment?  
Which customer needs are we addressing?  
Value Propositions:  
Product  
Service  
Packaging  
Channels  
Customer Relationships  
Key Resources  
Key Activities  
Cost Structure  
Revenue Streams  
Channels  
Customer Relationships  
Customer Segments

building  
block

## Customer Relationships



What type of relationships does each of our Customer Segments expect us to establish with them?  
Which relationships are most important to our Customer Segments?  
How do we create, build and maintain these relationships?  
Customer Relationships:  
Channels  
Key Resources  
Key Activities  
Cost Structure  
Revenue Streams  
Channels  
Customer Relationships  
Customer Segments

building  
block

## Customer Segments



For whom are we creating value?  
Who are our most important customer segments?  
Customer Segments:  
Channels  
Key Resources  
Key Activities  
Cost Structure  
Revenue Streams  
Channels  
Customer Relationships  
Customer Segments

building  
block

## Key Resources



What Key Resources do we need to make our Value Propositions?  
Can Customers Channel? Customer Relationships?  
Revenue Streams?  
Key Resources:  
Channels  
Customer Relationships  
Customer Segments  
Cost Structure  
Revenue Streams

building  
block

## Channels



building  
block

building  
block

## Cost Structure

What are the most important costs, where? How do we reduce them?  
Which Key Resources are most expensive?  
Which Key Activities are most important?  
Cost Structure:  
Channels  
Customer Relationships  
Customer Segments  
Key Resources  
Key Activities  
Value Propositions

building  
block

building  
block

## Revenue Streams

For what value are our customers really willing to pay?  
How do they pay?  
How and how often are they paying?  
How much does each Revenue Stream contribute to overall revenues?  
Revenue Streams:  
Channels  
Customer Relationships  
Customer Segments  
Key Resources  
Key Activities  
Value Propositions  
Cost Structure

building  
block



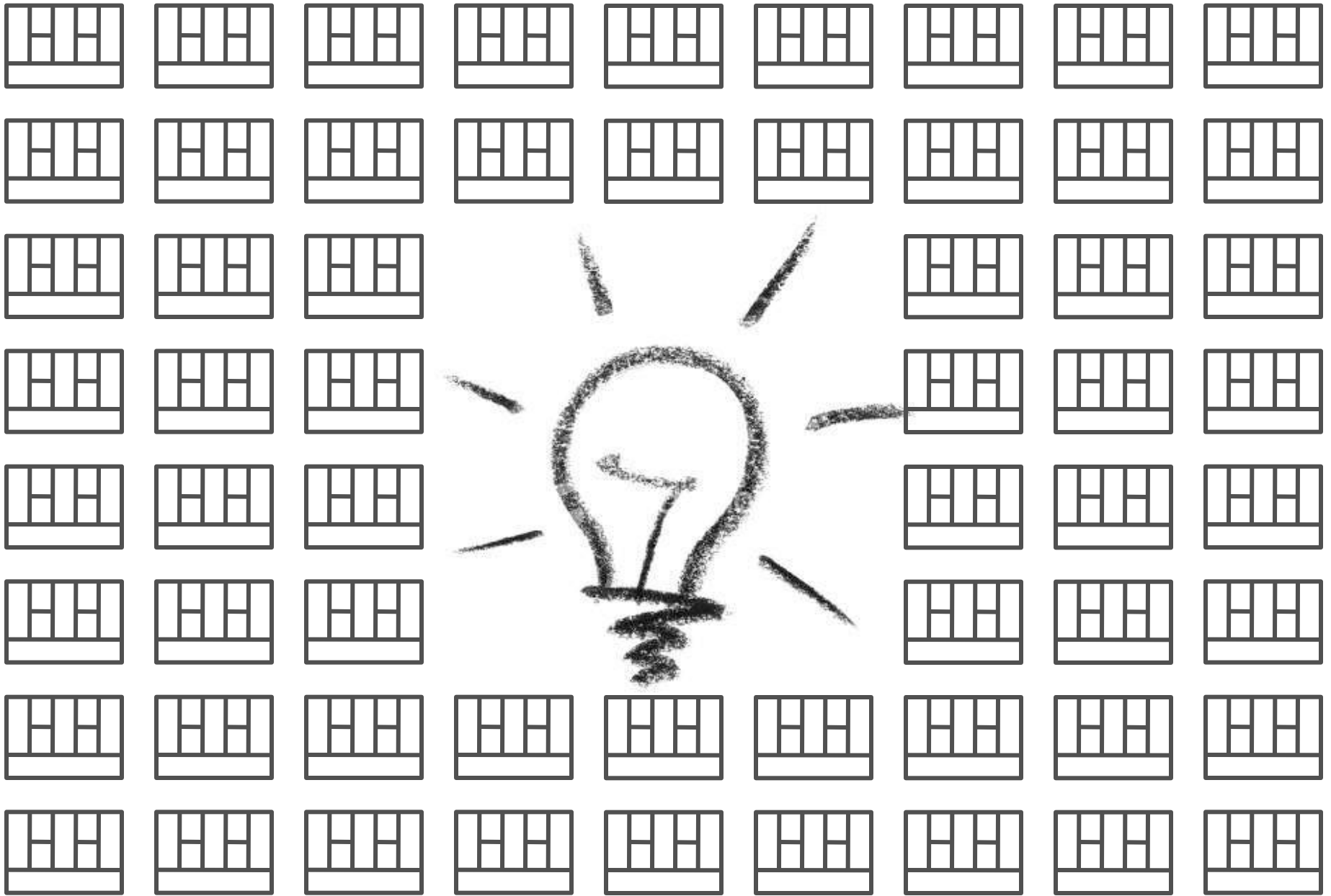
# This tool is called the Business Model Canvas

(download with instructions at  
[www.businessmodelgeneration.com/downloads](http://www.businessmodelgeneration.com/downloads))

3

*Take time  
to think  
through  
alternative  
possibilities.*

the same technology, product, or service  
can have numerous business models





try sketching out alternative  
business models by asking  
yourself...

transactional vs.  
recurring revenues

product vs. service

scale vs. scope

niche market vs.  
mass market

direct sales vs.  
indirect sales

blue ocean vs. red  
ocean

capital expenditure vs.  
partnership

open vs. closed

personal vs.  
automated

acquisition vs. retention

# difficult questions

human intensive vs. system intensive

disruptive vs. incremental

one customer segment  
vs. another

physical vs. virtual

tailor-made vs. mass  
production

paid vs. free

copyright vs. copyleft

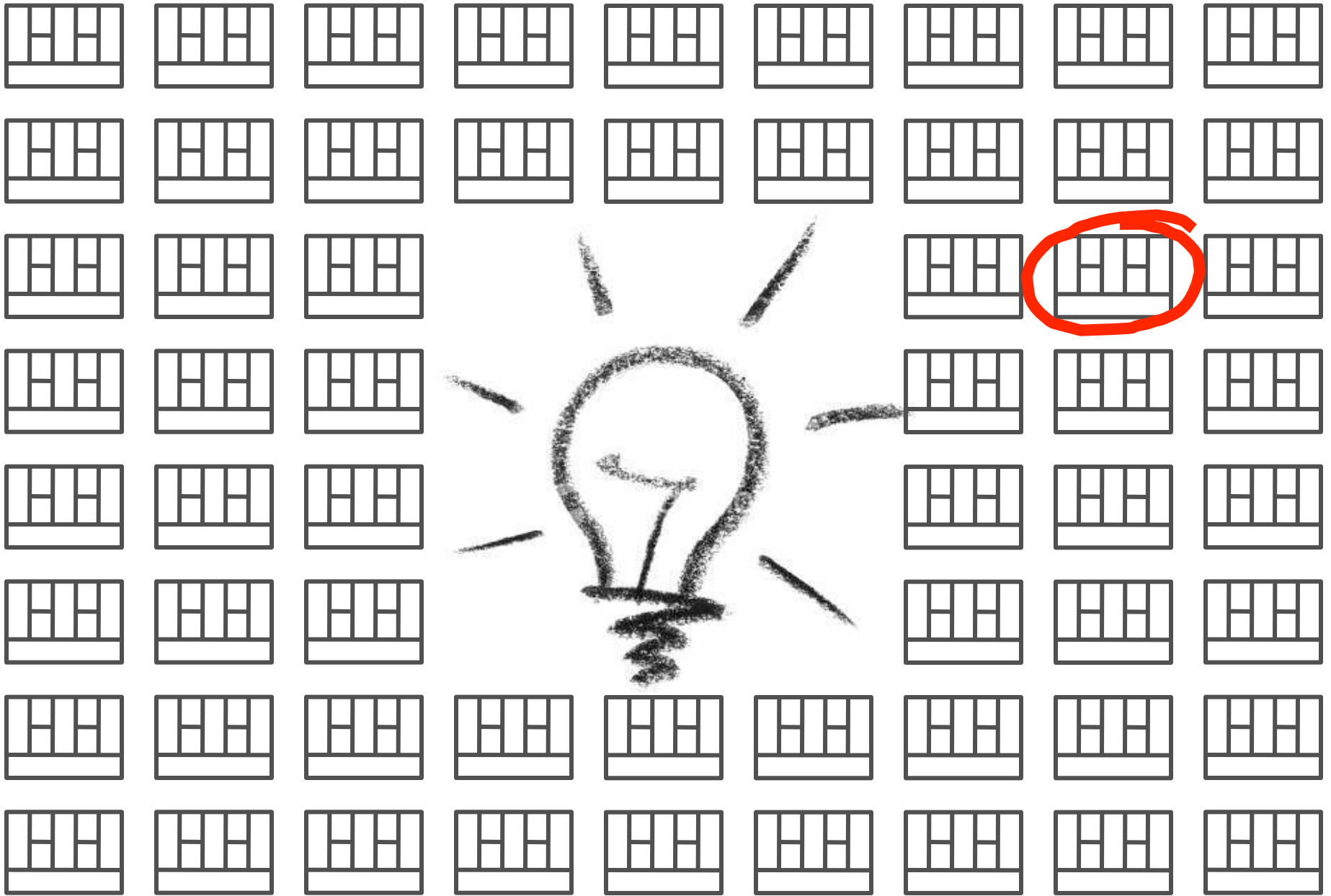
fixed vs. variable  
costs

distributed vs.  
centralized

in-sourcing vs. out-  
sourcing

advertising vs.  
sales

only make a first choice after prototyping  
and thinking through several models...

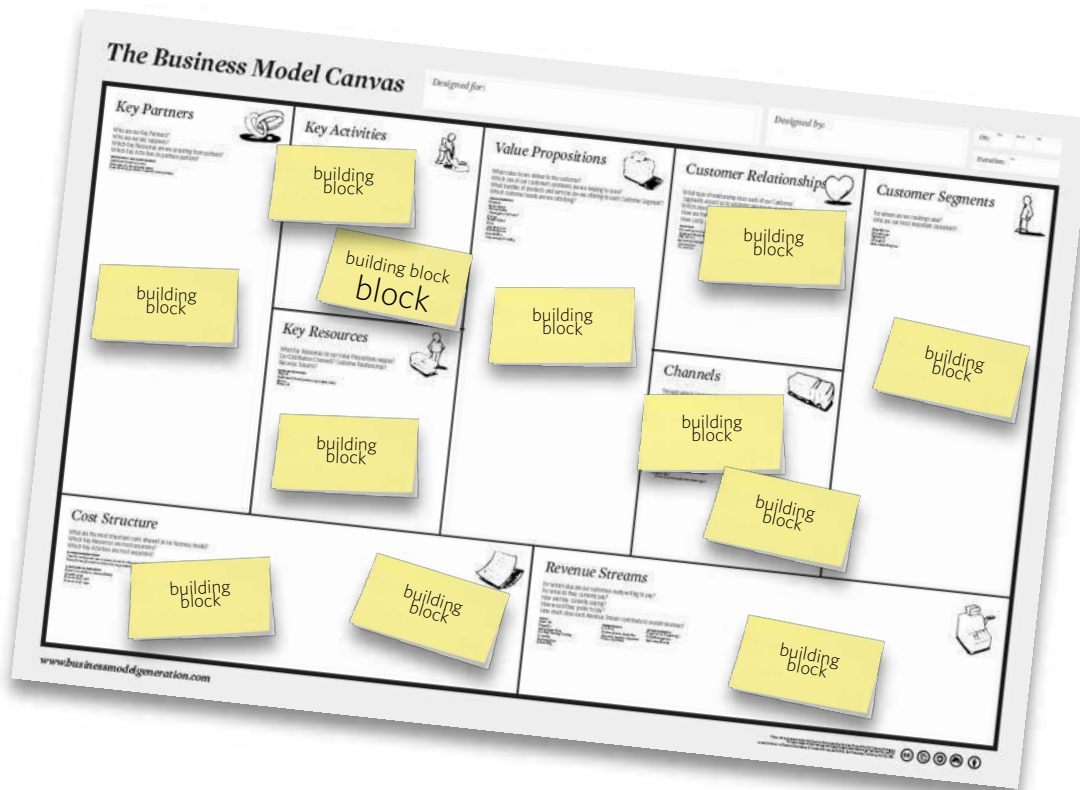


OK. You've got your model,  
but you're not done yet...

# 4

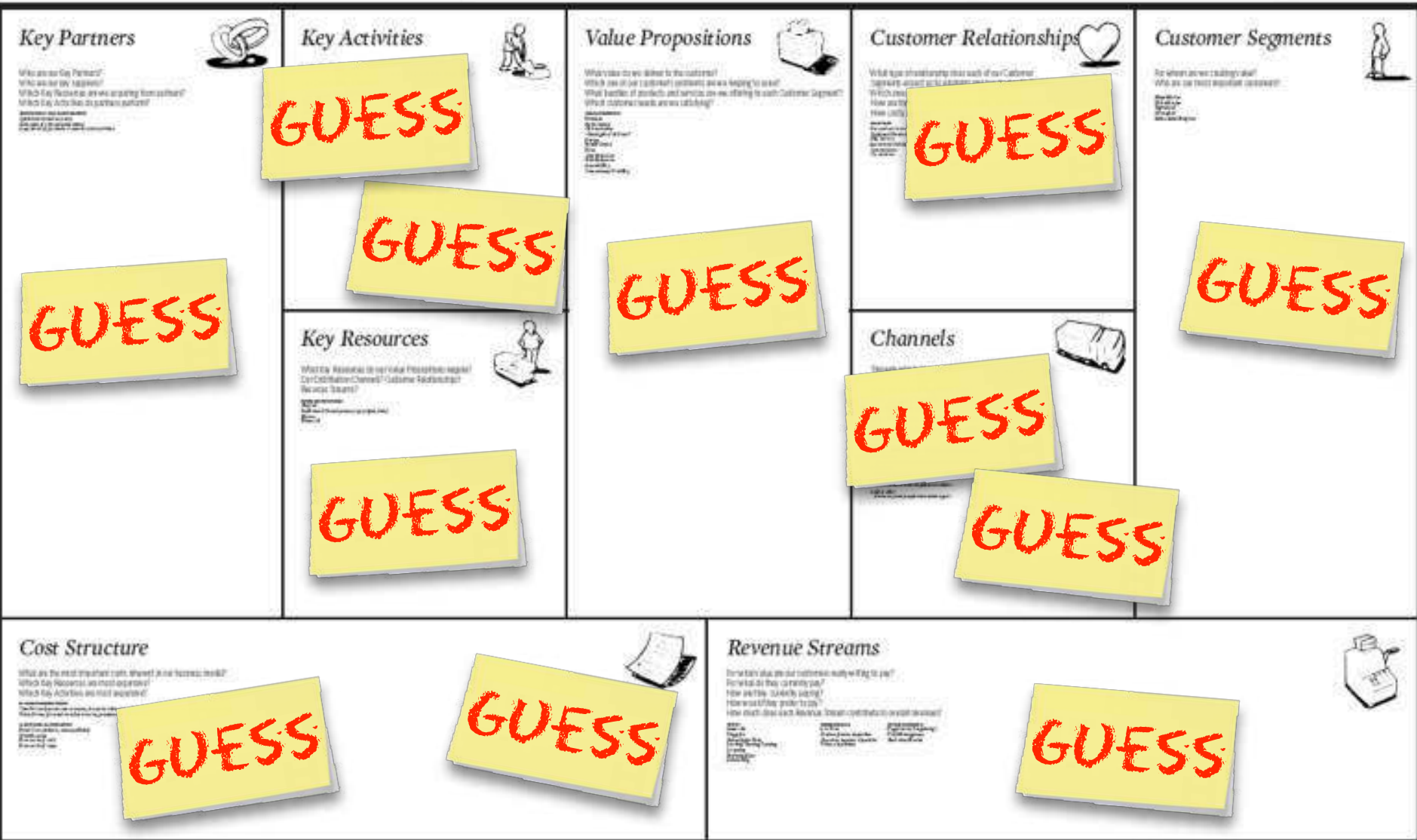
*Your business  
model idea is  
just a set of  
hypotheses.*

a business model might look great on  
paper...



... but be  
honest that it's

# ... just a set of hypotheses



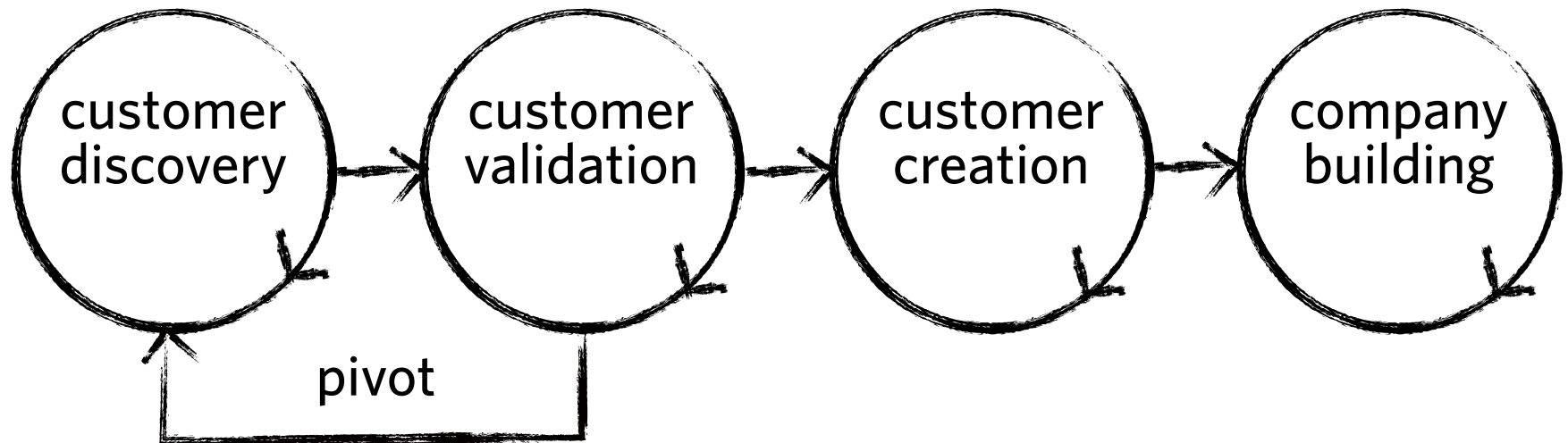


...so you need to get out of the  
building and...



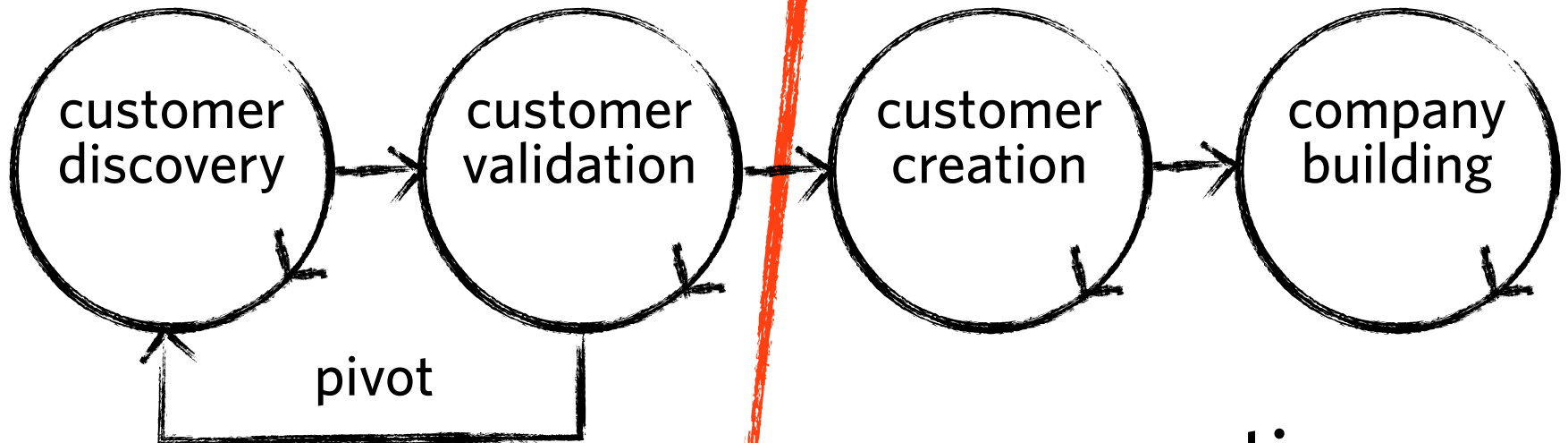
test each hypothesis  
(e.g. with customers)

this business model testing process is called **Customer Development**



two different phases...

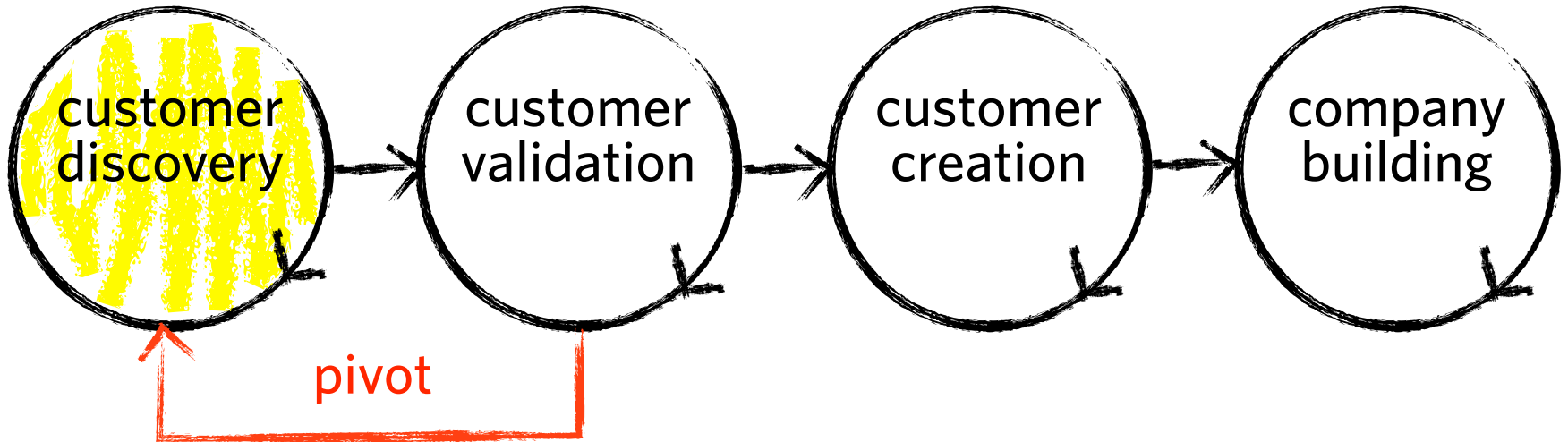
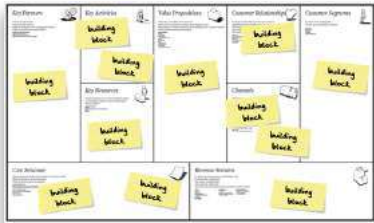
search



execution

and it starts with...

... verifying every hypothesis



# test your hypotheses

## Key Partners



Who are our Key Partners?  
 Who are our Key Suppliers?  
 Which Key Resources are we acquiring from outside?  
 Which Key Activities do our partners perform?  
 Channels:  
 Distribution:  
 Key Partners:  
 Key Suppliers:

## Key Activities



What Key Activities do we need to perform to create Value Propositions for our Customers?  
 Can Customers/Channels/ Customer Relationships?  
 Key Resources:  
 Key Partners:  
 Key Suppliers:

## Value Propositions



What Value do we deliver to the customer?  
 Which one of our customers' problems are we helping to solve?  
 What bundle of products and services are we offering to each Customer Segment?  
 Which customer needs are we addressing?  
 Channels:  
 Distribution:  
 Key Partners:  
 Key Suppliers:  
 Key Activities:  
 Key Resources:  
 Key Relationships:

## Customer Relationships



What type of relationship does each of our Customer Segments expect and how do we live up to them?  
 Which ones have we established?  
 How are they integrated with the rest of our business model?  
 Key Channels and Cost?  
 Channels:  
 Distribution:  
 Key Partners:  
 Key Suppliers:  
 Key Activities:  
 Key Resources:  
 Key Relationships:

## Customer Segments



For whom are we building this?  
 Who are our most important customers?  
 Channels:  
 Distribution:  
 Key Partners:  
 Key Suppliers:  
 Key Activities:  
 Key Resources:  
 Key Relationships:

## Key Resources



What Key Resources do we need to perform Key Activities for our Customers?  
 Can Customers/Channels/ Customer Relationships?  
 Key Resources:  
 Key Partners:  
 Key Suppliers:  
 Key Activities:  
 Key Relationships:

product  
 market type  
 competition

## 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 are best?  
 Which ones are most cost efficient?  
 How are we integrating them with customer contact?  
 Channels:  
 Distribution:  
 Key Partners:  
 Key Suppliers:  
 Key Activities:  
 Key Resources:  
 Key Relationships:

## Cost Structure

What are the most important costs, where? Which resources are most expensive?  
 Which Key Activities are most expensive?  
 Channels:  
 Distribution:  
 Key Partners:  
 Key Suppliers:  
 Key Activities:  
 Key Resources:  
 Key Relationships:



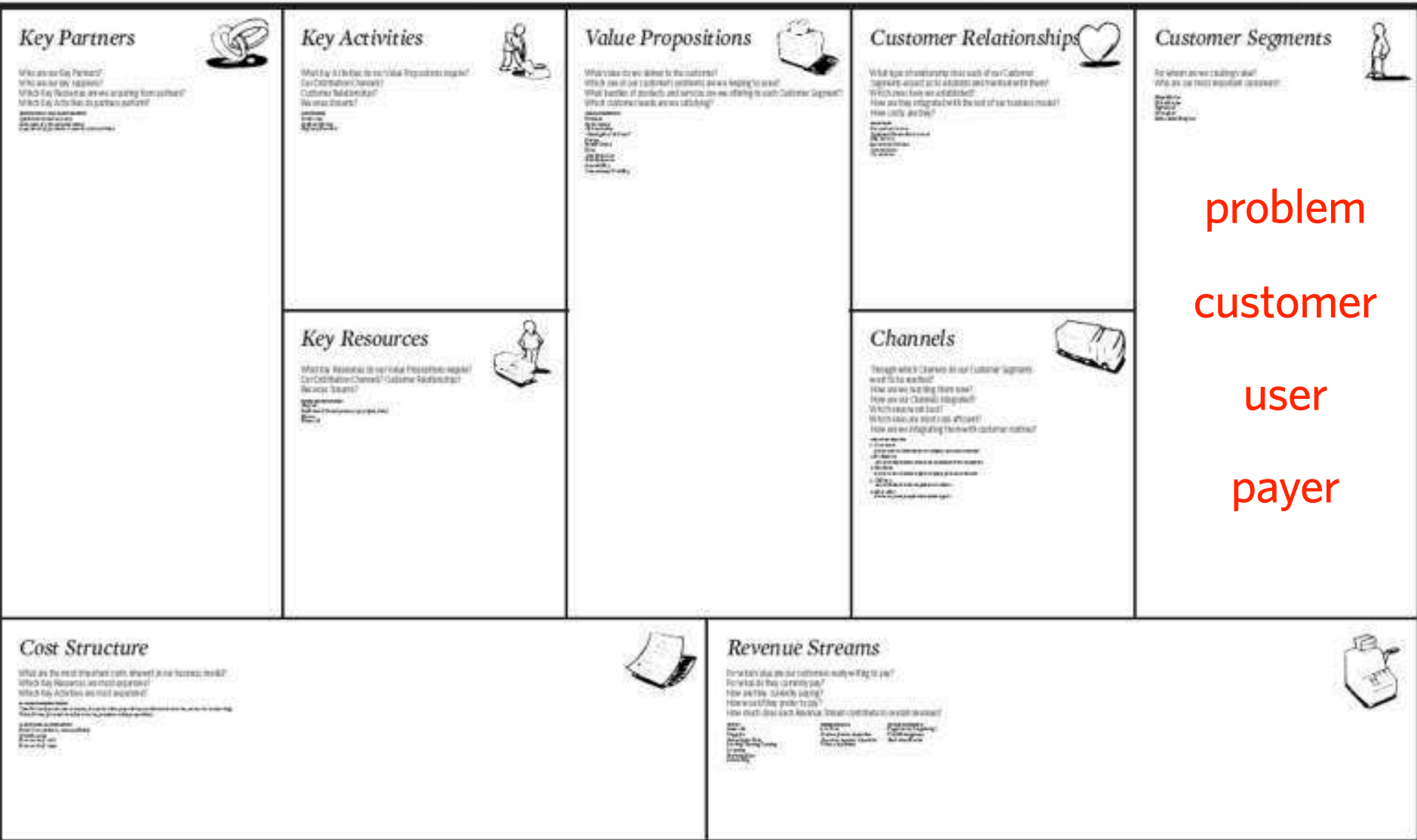
## Revenue Streams

For what Value are our customers really willing to pay?  
 How much are they willing to pay?  
 How are they paying?  
 How much does each Customer Segment contribute to our revenue?  
 Channels:  
 Distribution:  
 Key Partners:  
 Key Suppliers:  
 Key Activities:  
 Key Resources:  
 Key Relationships:





# test your hypotheses



problem  
 customer  
 user  
 payer

# test your hypotheses

## Key Partners



Who are our Key Partners?  
 Who are our Suppliers?  
 Which Key Partners are we aspiring to attract?  
 Which Key Activities do partners perform?  
 What are our channels?  
 What are our cost structures?  
 What are our revenue streams?

## Key Activities



What Key Activities do we need to perform to create Value Propositions for our Customers?  
 Do our Customers/Channels/Customer Relationships?  
 Do we have channels?  
 Do we have cost structures?  
 Do we have revenue streams?

## Value Propositions



What value do we deliver to the customer?  
 Which one of our customers' problems are we helping to solve?  
 What bundles of products and services are we offering to each Customer Segment?  
 Which customer needs are we addressing?  
 Channels:  
 Key Resources:  
 Key Activities:  
 Key Partners:  
 Cost Structure:  
 Revenue Streams:  
 Key Partners:  
 Key Resources:  
 Key Activities:  
 Key Partners:  
 Cost Structure:  
 Revenue Streams:

## Customer Relationships



What type of relationship does each of our Customer Segments expect and how do we provide it?  
 Which types have we established?  
 How are they integrated with the rest of our business model?  
 How costly are they?  
 Channels:  
 Key Resources:  
 Key Activities:  
 Key Partners:  
 Cost Structure:  
 Revenue Streams:

## Customer Segments



For whom are we building this?  
 Who are our most important customers?  
 Channels:  
 Key Resources:  
 Key Activities:  
 Key Partners:  
 Cost Structure:  
 Revenue Streams:

## Key Resources



What Key Resources do we need to perform Key Activities for our Customers/Channels/Customer Relationships?  
 Do we have channels?  
 Do we have cost structures?  
 Do we have revenue streams?  
 Channels:  
 Key Resources:  
 Key Activities:  
 Key Partners:  
 Cost Structure:  
 Revenue Streams:

## Channels



Through which Channels do our Customer Segments want to be reached?  
 How are we reaching them now?  
 How are our Channels integrated?  
 Which reach out best?  
 How costly are they to set up?  
 How costly are they to maintain?  
 How are they integrated with our other business model?  
 Channels:  
 Key Resources:  
 Key Activities:  
 Key Partners:  
 Cost Structure:  
 Revenue Streams:

channel

## Cost Structure

What are the most important costs, where? Which business model?  
 Which Key Resources are most expensive?  
 Which Key Activities are most expensive?  
 Which Key Partners are most expensive?  
 Which Key Channels are most expensive?  
 Which Key Customer Segments are most expensive?  
 Which Key Revenue Streams are most expensive?  
 Channels:  
 Key Resources:  
 Key Activities:  
 Key Partners:  
 Cost Structure:  
 Revenue Streams:

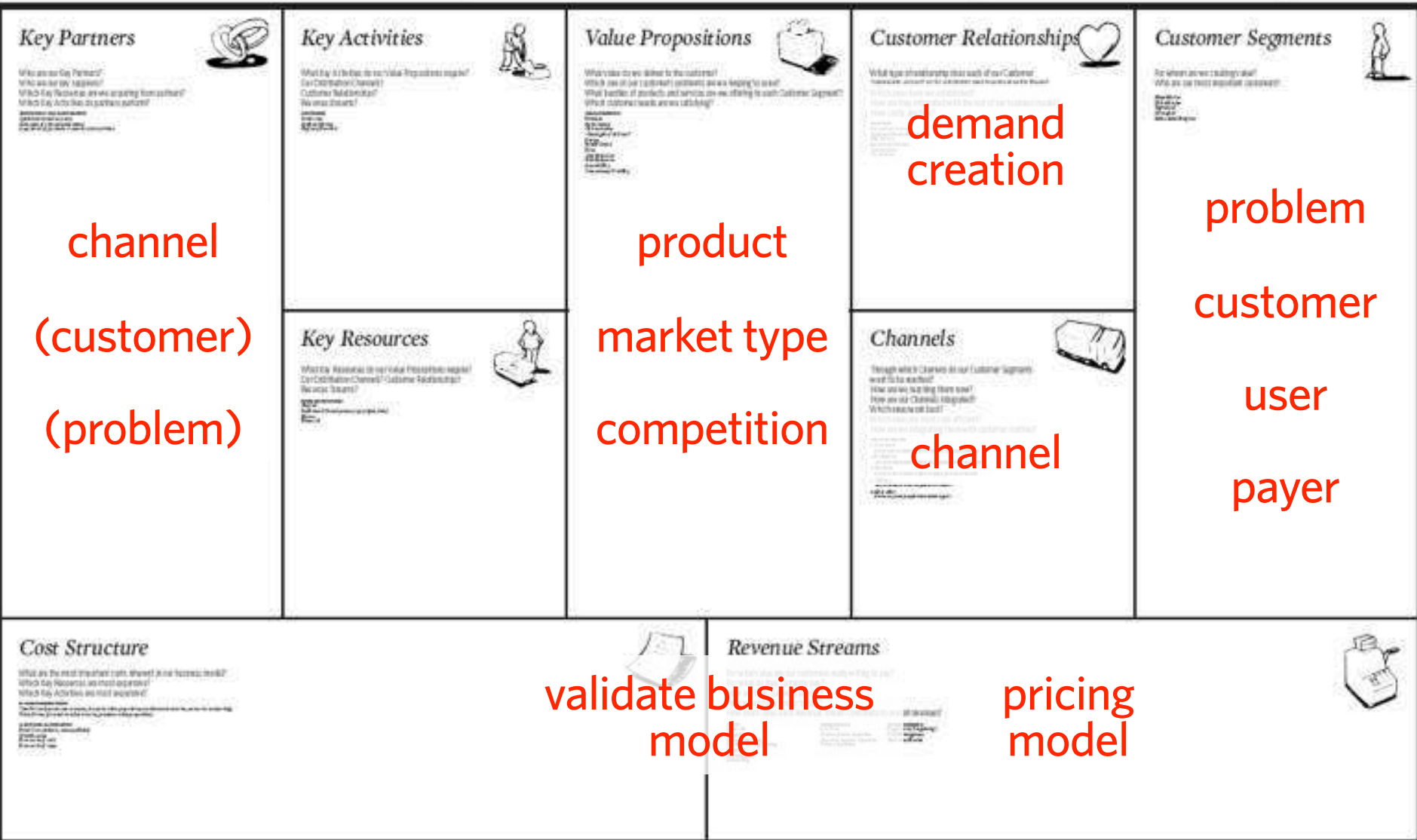


## Revenue Streams

For what value are our customers willing to pay?  
 For what do they care the most?  
 How are they currently paying?  
 How are they likely to pay?  
 How much does each Customer Segment contribute to our revenue?  
 Channels:  
 Key Resources:  
 Key Activities:  
 Key Partners:  
 Cost Structure:  
 Revenue Streams:



# test your hypotheses



to accomplish this you will need a special  
and agile ...

# customer development team

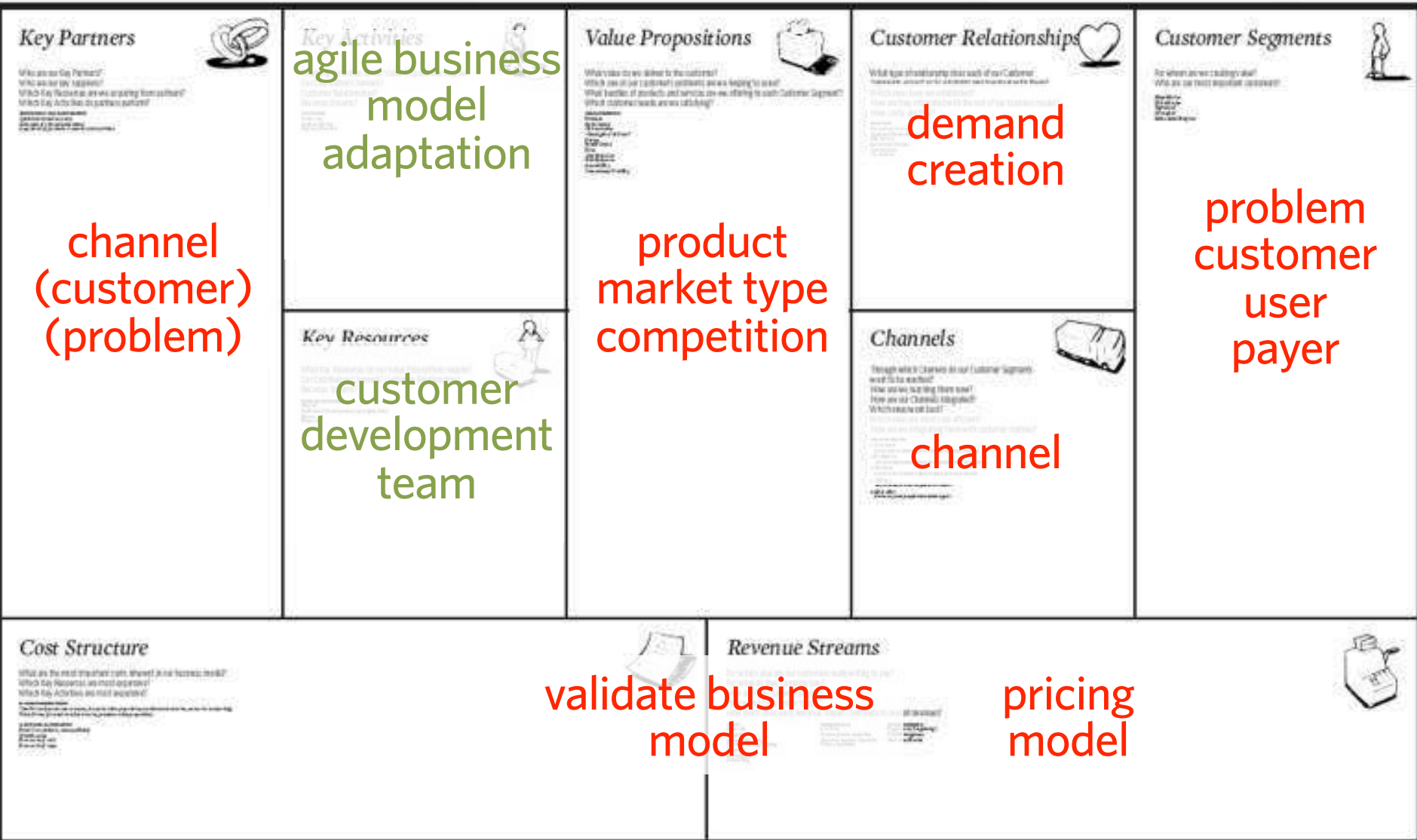


A team that ...

... gets out of the  
building!

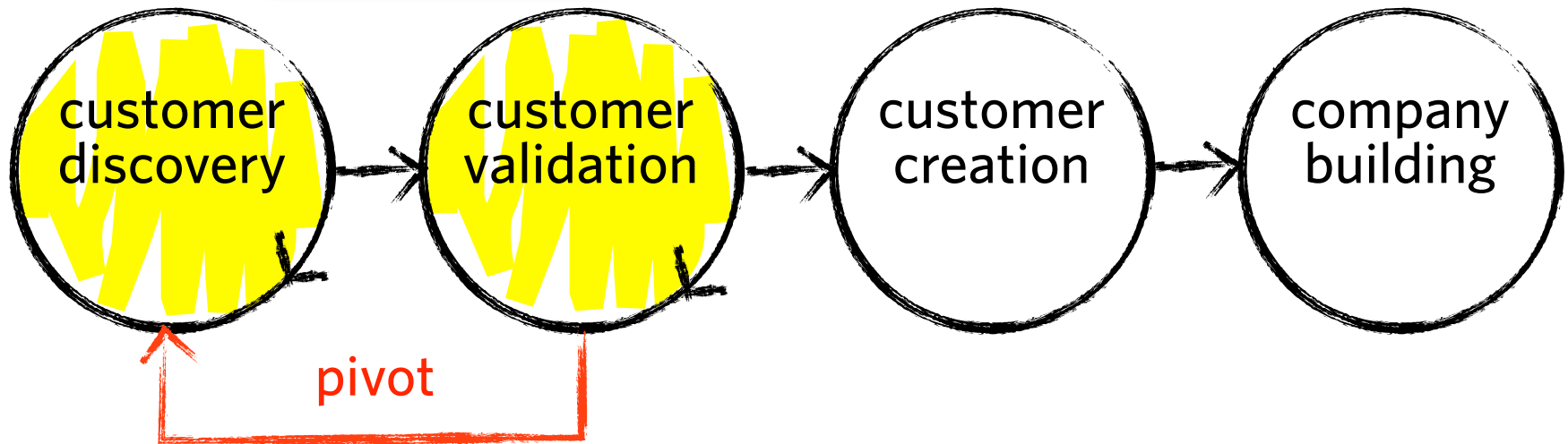


# ... to test and adapt your model





you need to adapt the  
business model until  
you can prove it works



*“How do I prove  
a business  
model works?”*



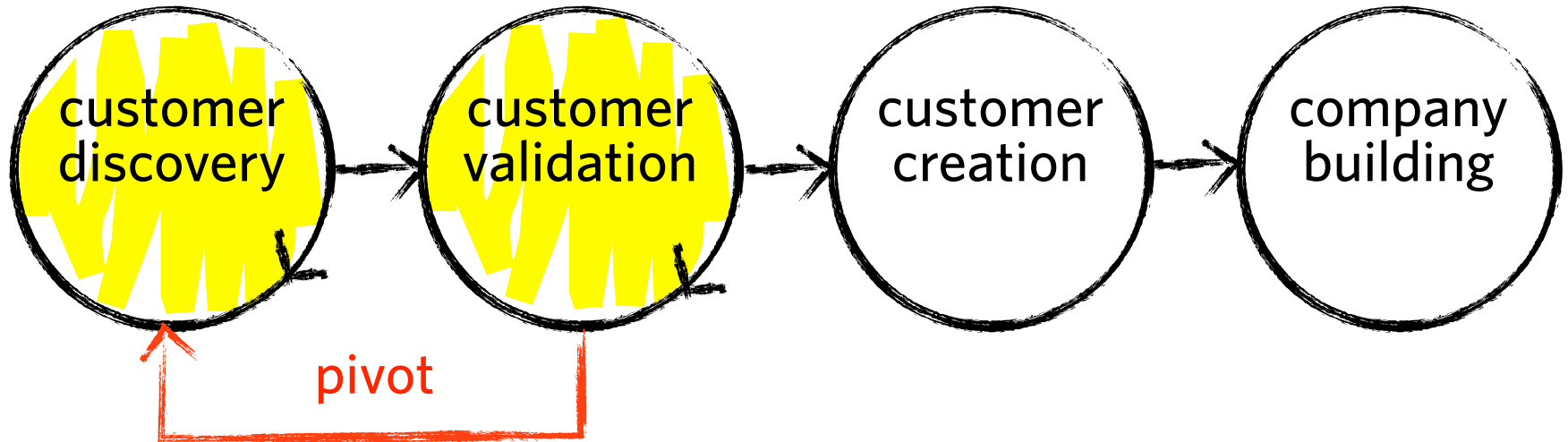
One example of “proving” is  
concluding the ...

... sales of a “minimum viable feature set”



This adaptation process is called ...

# the pivot



(repeat \* until proven)



so do you have any "factual" proof?

Congratulations!



You finished the search  
process!



So don't ever forget ...

# 5

*Don't build your  
company, until  
you've verified  
your Business  
Model*

or you'll risk ...

Burning your cash while  
searching for a working  
business model



execution is not search

execution follows search

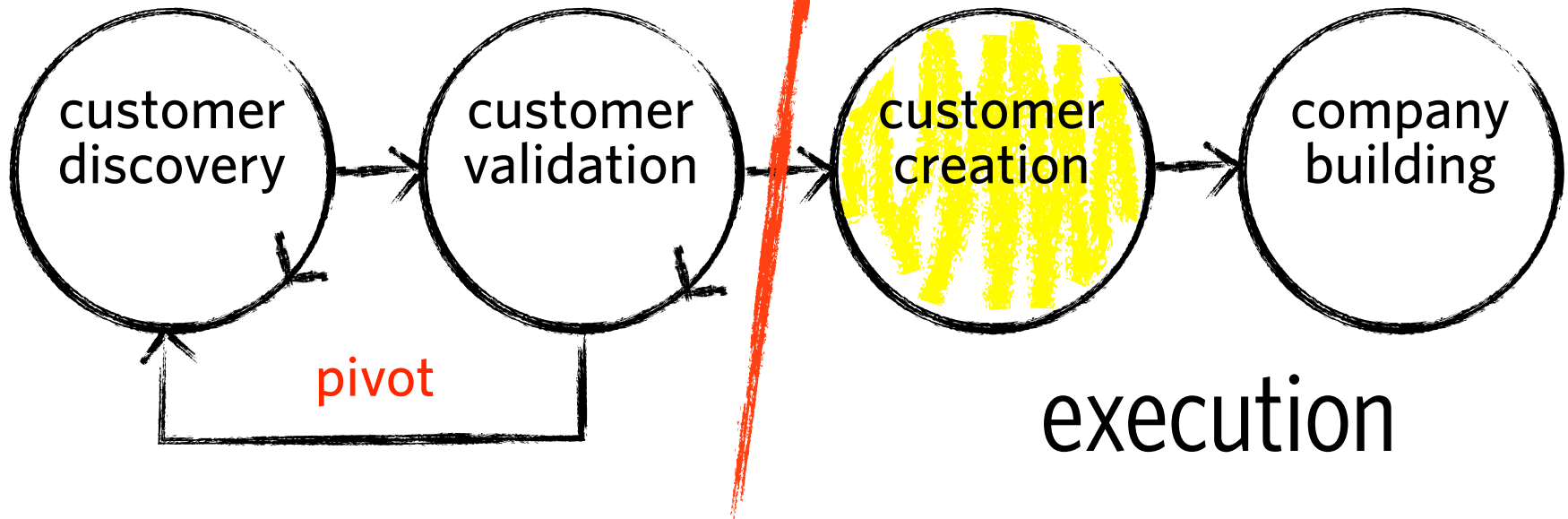
Build when you've found  
your model



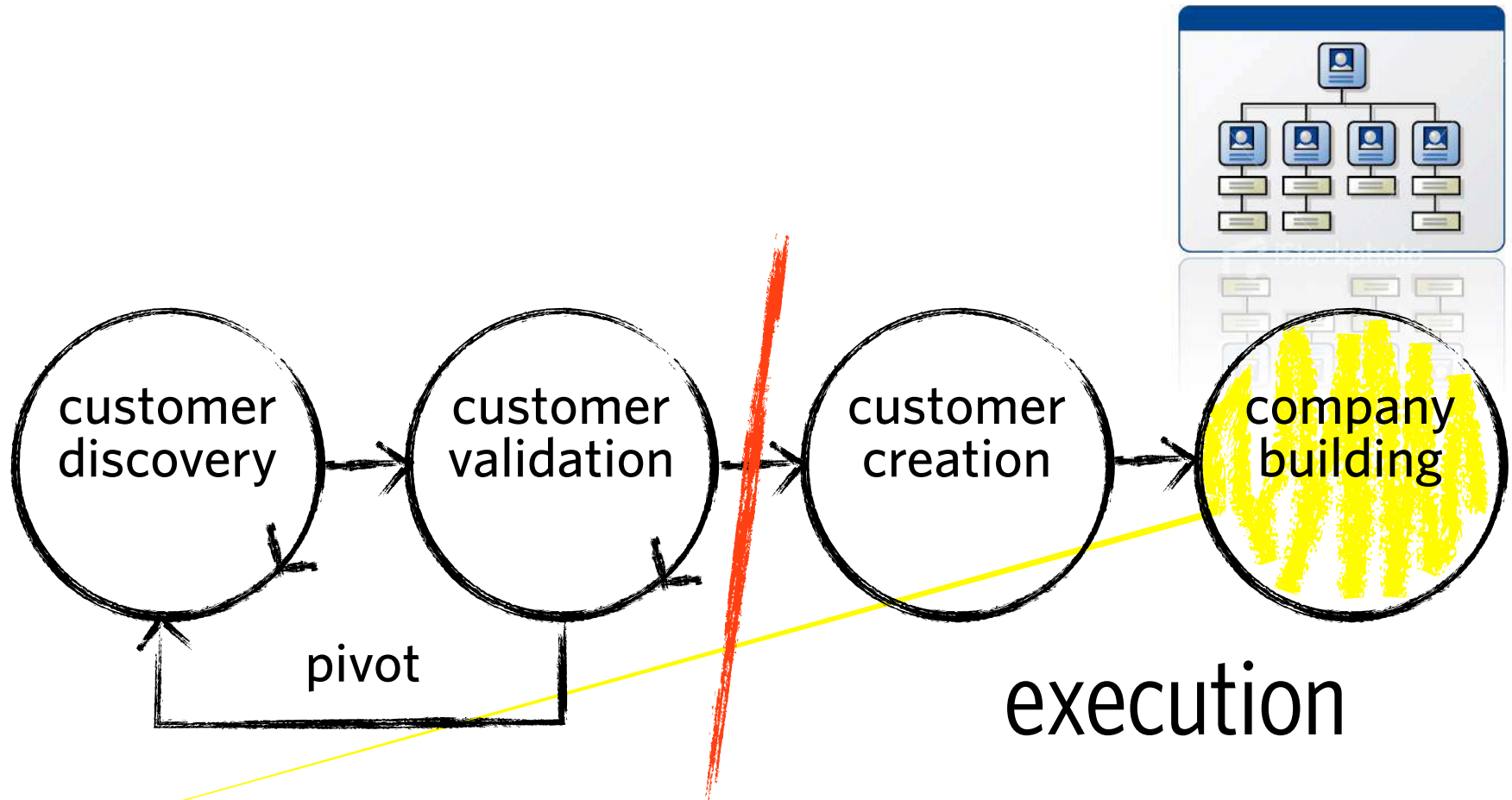


only then execute:

# scale your marketing

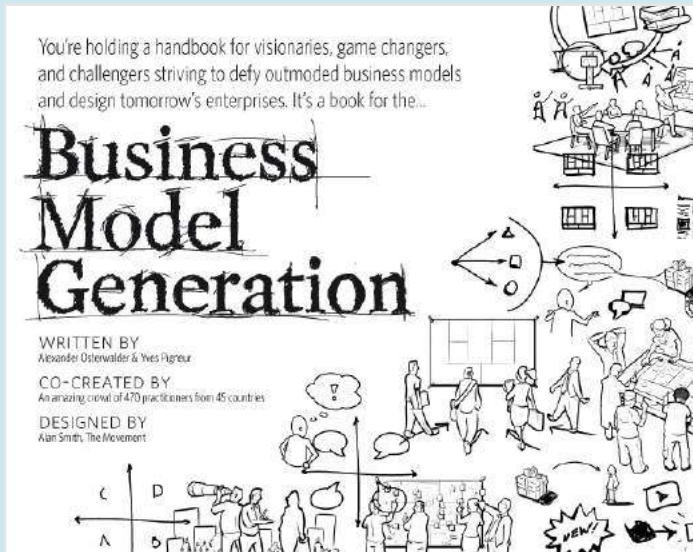


and build your org structures

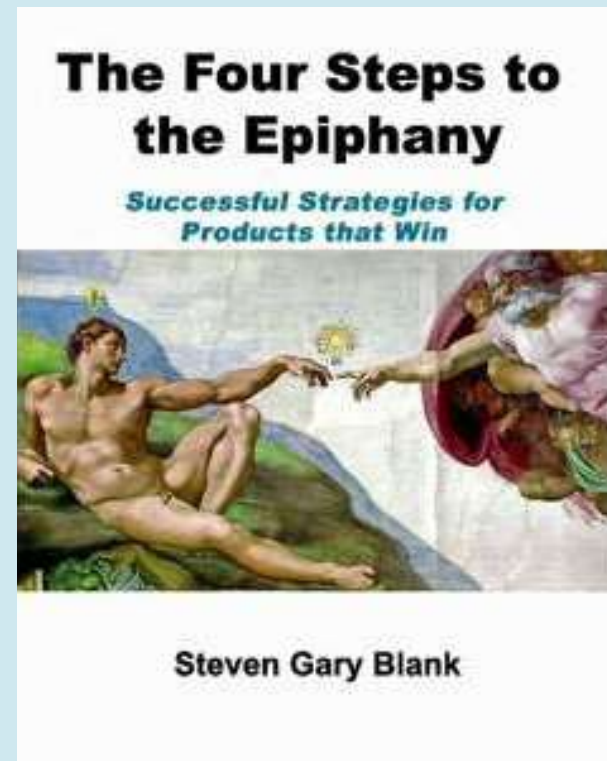


- 1** *No business plan survives the first customer contact.*
- 2** *It's the business model, stupid.*
- 3** *Take time to think through alternative possibilities*
- 4** *Your business model idea is just a set of hypotheses.*
- 5** *Don't build your company, until you've verified your Business Model*

YOU CAN READ MORE ABOUT BUSINESS MODELS AND THE CUSTOMER DEVELOPMENT PROCESS HERE:



+



# Good Luck!

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