

Lessons Learned – Week 3

Last class each team presented their Business Model 1.0! After the LeadTeam presentation some interesting questions from our colleagues were made: which features do we intend to incorporate in the premium version; who is developing the platform; and if it was possible for students from non-subscriber Universities to access the platform. This way we got a grasp in what were the main concerns of one of our customer segment, “University Students”. Most important, the reaction to the existence of the problem was extremely positive, since most students agreed the current solution is not efficient enough.

Traditional Approach and Lean Start-up (taking into account the “Why the Lean Start-Up Changes Everything” by Steve Blank)

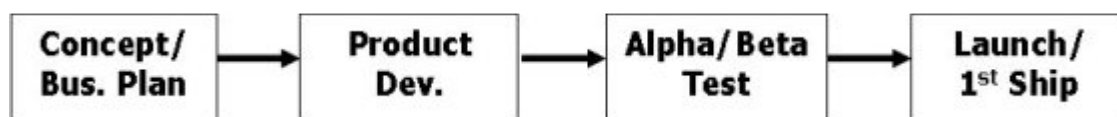
For decades and decades the recipe for start-ups was very straight forward: “if we build it, they will come”

The entrepreneur was expected to present a Business Plan. This static document should provide a description of the idea (problem and suggested solution) with a 5 year projection (Revenue, Cash Flow...). Notice that this approach is based on the assumption that “it’s possible to figure out most of the unknowns of a business in advance, before you raise money and actually execute the idea.”.

Then, the founder would pitch to several investors, assemble a team and invest thousands of resources in developing a final product/service, with little or none customer feedback, making it ready to launch. Finally, he would sell it as much as possible and finally get customer feedback through the sales force.

The truth is that according to Shikhar Ghosh research¹: 30% to 40% of the start-ups liquidate all assets and 95% fail to reach the expect return on investment. In other words, only after launching and spending thousands, the entrepreneurs knew that, in fact, the consumers do not needed the product/service as it was.

This is related with the product development process:



¹<http://online.wsj.com/news/articles/SB10000872396390443720204578004980476429190>

By understanding that (1) start-ups are not small sized large companies (they do not execute a BM, they look for one) (2) the Business Plan seldom resists the first contact with customers and (3) five-year plans are normally just fiction and a waste of time (4) the start-ups that normally succeed are those flexible enough to adapt accordingly with customer feedback and iterate rapidly, the Lean Start-up concept defined a start-up as: “a temporary organization designed to search for a repeatable and scalable business model.”

This methodology defends that what founders really have is just a series of testable hypothesis – what **you think** is good for your clients. Therefore, start-ups should start by constructing these hypotheses using the Business Model Canvas framework.

This is what LeadTeam has been doing! We started by developing our Business Canvas 1.0 and now we have created 10 Hypothesis, thought of a way of testing them and what would be our validation criteria! Stay tune to see our results!

The second step should be getting out of the desk and going to test them with real potential clients and partners! After testing assumptions, the entrepreneurs ought to construct the called Minimum Viable Product (MVP) and try the solution among costumers, adapting as necessary. This cycle should continue, as founders readjust the Business Model (iterate) or completely change one or more hypotheses (pivot). Notice the cost difference between changing a Business Model and reconstructing a prototype built after years of research.

This process employs the customer development approach already mentioned in Lessons Learned 1.

Having the MVP, the question now is: How can we check that are people strongly motivated to use the product and pay the amount we have defined? How will we analyze the actions that tell me if they want to buy it?

In class we had a quick overview on how to test our hypothesis: We have to be in listening mode!!

1. Interviews

This is normally the first thing to do, as one learn a lot from these one-on-one conversations. Notice that we are not selling and convincing the customer, this is not a sale pitch (in fact, we don't know what we will sell in the end).

In which concern interviews, Kevin Dewalt confirmed that roughly 20 interviews may take 2 to 3 weeks! He then developed a systematic procedure which boosts this process' efficiency. You can read all about it in his blog², but there are a few points we would like to highlight!

The first is the "Intro Request Script". This is basically a pitch to the person you are introducing yourself to and with whom you would like to do an interview. In this little text you should start by stating who you are, then what you are doing (briefly), what kind of person you need to interview and, finally, a finishing line asking: "Do you have time to give me some advice over a 20-min Skype call?". These "advice" and "help" words are critical! Nevertheless, you should keep it easy to forward and short.

Another interesting advice is that if you are a student, you should add that to the e-mail. People will be more willing to help!

On the other hand, Ross Belmont created a template for these interviews. It focus on getting the problem (make sure you read between the lines), the current solution (questions like "What solution/process are they using today?" and "What is their state of mind (e.g. bored, frustrated, hurried, etc.) when doing this task?") and what would they value in a possible solution (questions like "If they made these improvements, what would the benefits be?")³.

2. Surveys

Although the information you get is less, you can handle a much broader sample (150 answers saying what they think about your BM). Surveys should have 10 questions top - mainly closed questions.

3. AdWords

This tool will allow you to understand if clients are interested enough in the product/service to click in the Advert. Therefore, with by creating AdWords (although it is not free) you can quickly know about you pricing, value proposition and name decisions.

² <http://kevindewalt.com/2013/02/02/accelerate-your-customer-development-how-to-quickly-get-dozens-of-interviews/>

³ <http://revolveapp.com/blog/bid/213179/A-Template-for-Lean-Startup-style-Customer-Development-Interviews>

Other possibilities are Landing Pages, A/B Testing, Paper Prototyping, iPhone Prototyping, Product Prototyping, Crowdfunding Platforms, Wizard of Oz and Amazon/eBay.

Finally, once the product is readjusted enough, startups should start selling. The demand is built on marketing and sales departments, which allows the business to scale rapidly! It then passes to functional departments to execute the Model!

To know more about Lean Startups in a minute, check "Steve Blank: Why You Must Test Your Hypotheses" https://www.youtube.com/watch?v=_w-NUOjwMto