THE STARTUP OWNER'S MANUAL

THE STEP-BY-STEP GUIDE FOR BUILDING A GREAT COMPANY

BY STEVE BLANK AND BOB DORF

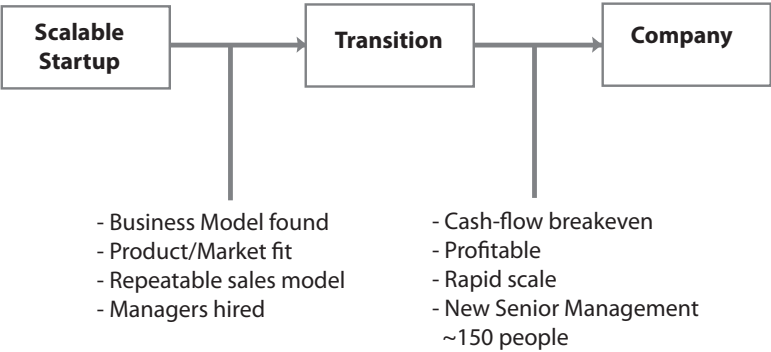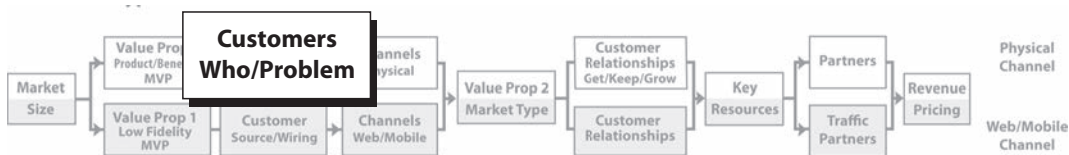# Contents

Diagram 1

Scalable Startup (Figure i.0)

- Business Model found
- Product/Market fit
- Repeatable sales model
- Managers hired

- Cash-flow breakeven
- Profitable
- Rapid scale
- New Senior Management
 ~150 people

Channel

Physical

Product

Physical

- Food
- Cars/Planes/Steel
- Solar panels
- Household goods
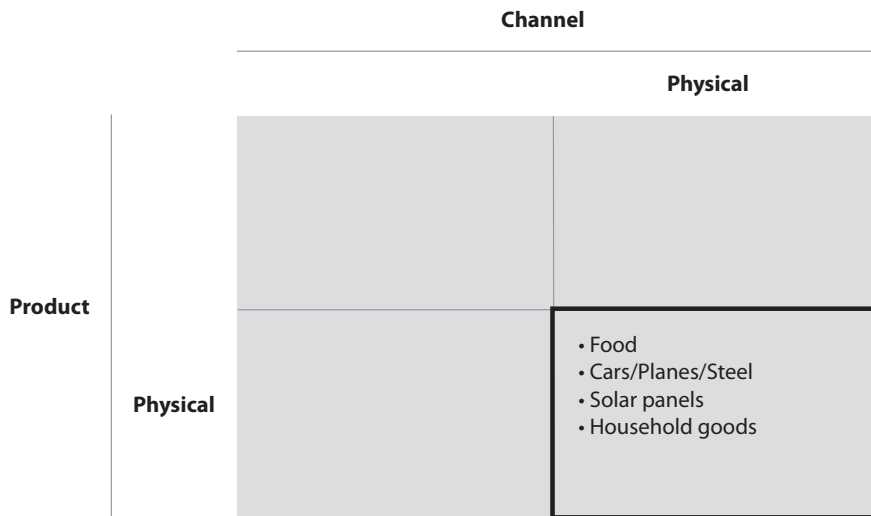
Physical Products Sold Through a Physical Channel (Figure i.1)

Channel

Physical

Product

Bits/ Virtual

- Health/Life Insurance
- Stocks/Bonds
- Enterprise Software (SAP, Oracle)
- Shrinkwrap software (video games, etc.)

Physical

- Food
- Cars/Planes/Steel
- Solar panels
- Bookstores
- Consumer electronics
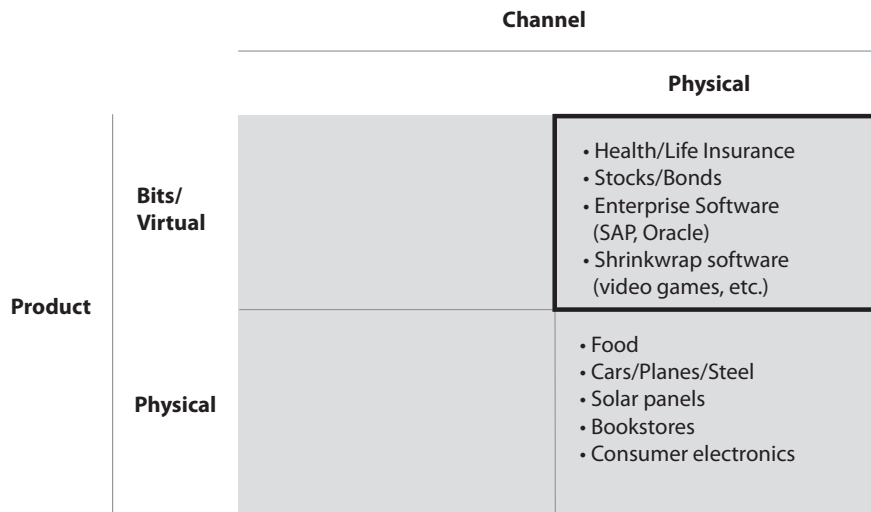
Software Products Sold Through Physical Channels (Figure i.2)

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	Channel	
Product	**Web**	**Physical**
Bits/ Virtual		• Health/Life Insurance • Stocks/Bonds • Enterprise Software (SAP, Oracle) • Shrinkwrap software (video games, etc.)
Physical	• Shoes/Zappos • Books/Amazon • Movies/Netflix • Consumer electronics	• Food • Cars/Planes/Steel • Solar panels • Bookstores • Consumer electronics

Physical Products in Web/Mobile Channels *(Figure i.3)*

	Channel	
Product	**Web**	**Physical**
Bits/ Virtual	• Google/Twitter/Zynga/ Facebook • Stocks/Bonds • Movies/Music/Books	• Health/Life Insurance • Enterprise Software (SAP, Oracle) • Shrinkwrap software (video games, etc.)
Physical	• Shoes/Zappos • Books/Amazon • Movies/Netflix • Consumer electronics	• Food • Cars/Planes/Steel • Solar panels • Bookstores • Consumer electronics

Software Products In Web/Mobile Channels *(Figure i.4)*
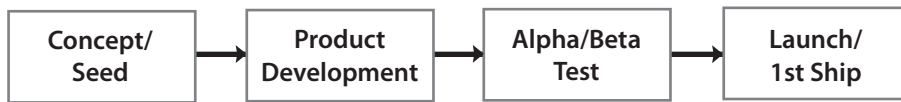
New Product Introduction Diagram (Figure. 1.1)
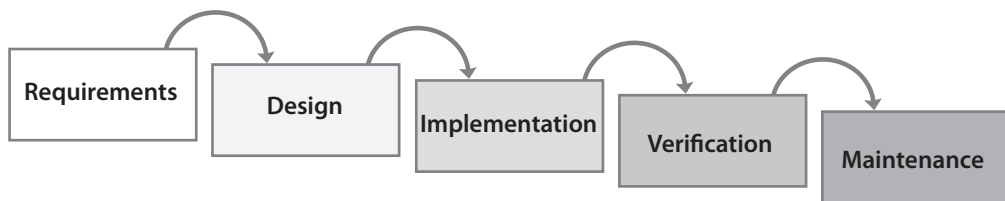
The Product Development "Waterfall" Model (Figure 1.2)
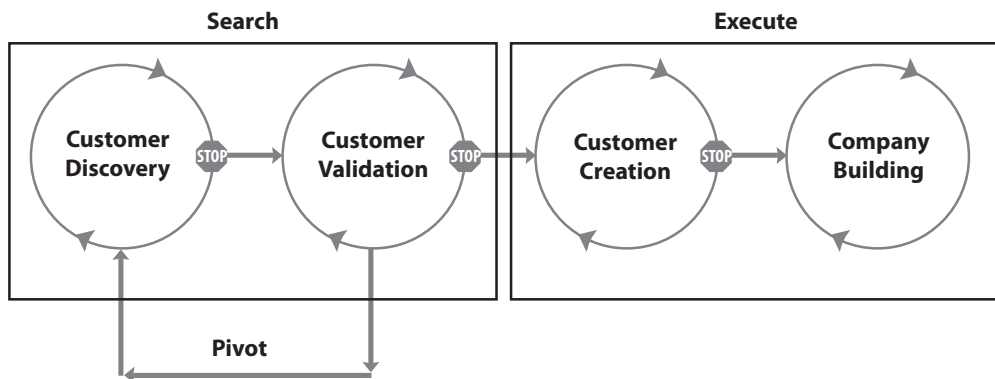
Customer Development Process (Figure 2.1)

Business Model Canvas *(Figure 2.2)*

The Customer Development Insight Cycle *(Figure 2.3)*

Overview of the Customer Discovery Process

State Your Hypotheses

Market Size

Value Prop 1 — Product/Benefits/ MVP

Customers Who/Problem

Channels Physical

Customer Relationships Get/Keep/Grow

Key Resources

Partners

Revenue Pricing

Physical Channel

Value Prop 1 — Low Fidelity MVP

Customer Source/Wiring

Channels Web/Mobile

Customer Relationships

Traffic Partners

Web/Mobile Channel

Value Prop 2 — Market Type

Test the Problem

Design Tests

Customer Contacts

Problem Understanding

Customer Understanding

Market Knowledge

Physical Channel

Build Your Low Fidelity MVP

Low Fidelity MVP Test

Traffic/ Competitive Analysis

Web/Mobile Channel

Test the Solution

Update Business Model and Team

Create Solution Presentation

Test Solution with Customer

Update Business Model Again

1st Advisory Board Members

Physical Channel

High Fidelity MVP Test

Measure Customer Behavior

Web/Mobile Channel

Pivot or Proceed

Verify: Product/ Market Fit

Verify: Customers and How to Reach Them

Verify: Can We Make Money?

Pivot or Proceed?

All Channels

12

Diagram 2

Search

Customer Discovery — STOP → Customer Validation — STOP →

Execute

Customer Creation — STOP → Company Building

Pivot

Has/ Acquired a Budget

Assembled a Solution out of Parts

Been Actively Looking for a Solution

Is Aware of Having a Problem

Has a Problem

Earlyvangelist Characteristics (Figure 3.1)

Phase	Page	Action	Goal
Prepare for Customer Engagement	200	-Build Lo-Fi MVP -Engage customers by driving a little traffic to the MVP.	See if the vision of the need/problem matches customers and how important this problem is to them.
Low Fidelity MVP Problem Test	211	-Gradually increase the number of invitations to the MVP. Closely study their behaviors on arrival and assess activities. -Keep meeting customers face to face. -Consider if it can scale.	-Understand the problem/need you are solving and how to explain it. -Does the customer care?
High Fidelity MVP Test	237	-Open the door and invite more customers in. -Watch for the velocity of customer activation.	-Determine whether customers will engage with or buy the product or use the site or app. (solution test) -Discover enough passionate, enthusiastic Earlyvangelists who clearly believe the product solves their problem.
Optimize getting more customers	380	Hang the "open" sign and the race to get customers begins.	-Optimize get customers strategy.

Developing the Minimum Viable Product for a Web/Mobile Product *(Figure 3.2)*

Business Model Canvas *(Figure 3.3)*

Key Partners 🗺	Key Activities 👷	Value Propositions 🎁	Customer Relationships 💗	Customer Segments 👤
· Technology partners – cloud vendors, management tools · System integrators / Consultants	• Design and refine capacity planning and match making algorithms •Develop and maintain cloud infrastructure vendors relationships •Develop brand as go-to place for cloud lifecycle management	· Reduced cloud infrastructure cost · Better compute needs matching · Increased visibility on service level	· For enterprise segment, higher touch model with field sales force	Capacity Planning · High variability in usage Service Matching • Companies unfamiliar with using cloud infrastructure SLA Monitoring • Companies with high SLA requirements with their customers
	Key Resources 👤 · Intellectual property – prediction algorithm · Developers · Inside sales force · Field sales force · Biz dev (channel partners and technology partners)	Integrators: · Increased budget for consulting services	**Channels** 📦 · Integrators / consultants specialized in cloud infrastructure	

Cost Structure 📝	Revenue Streams 💰
• Inside sales and field sales · Development Costs · Infrastructure costs – AWS · Support costs	• Subscription charge to buyers • Pricing table scales based on # of servers and # of seats, with tiers

www.businessmodelgeneration.com
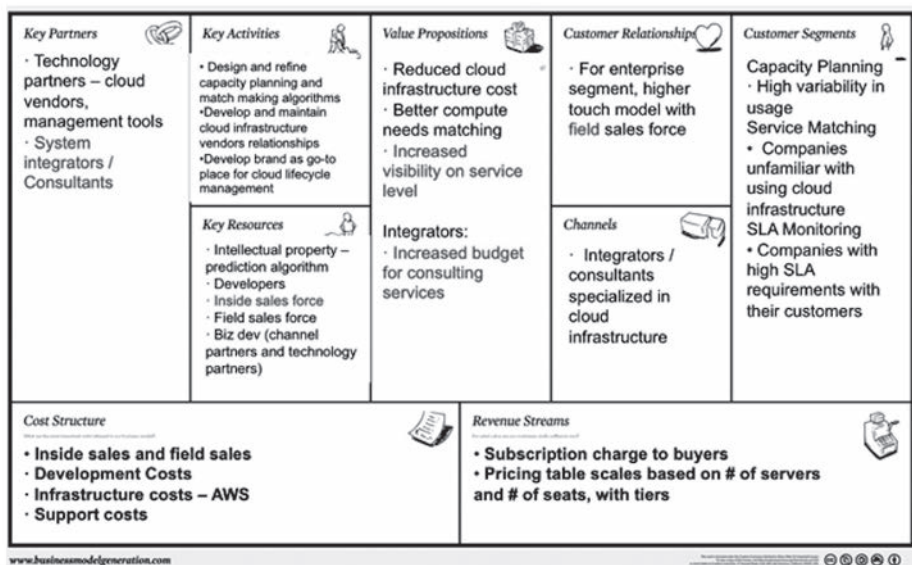
Sample Business Model Canvas—Initial Hypotheses (Figure 3.4)
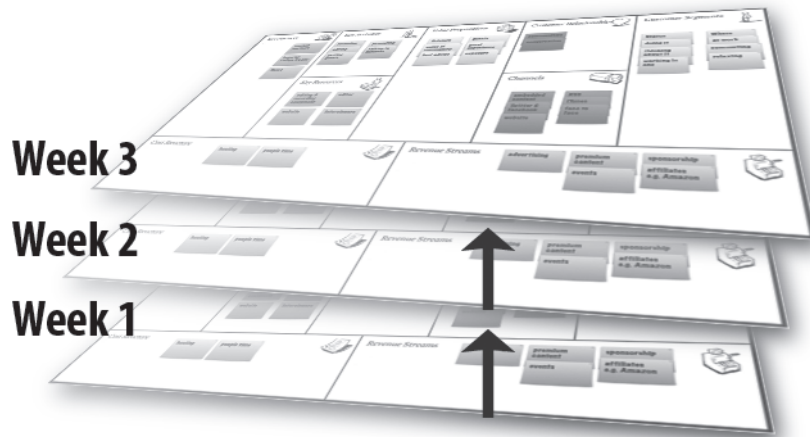
Using the Business Model Canvas as a Weekly Scorecard (Figure 3.5)

Overview of Customer Discovery
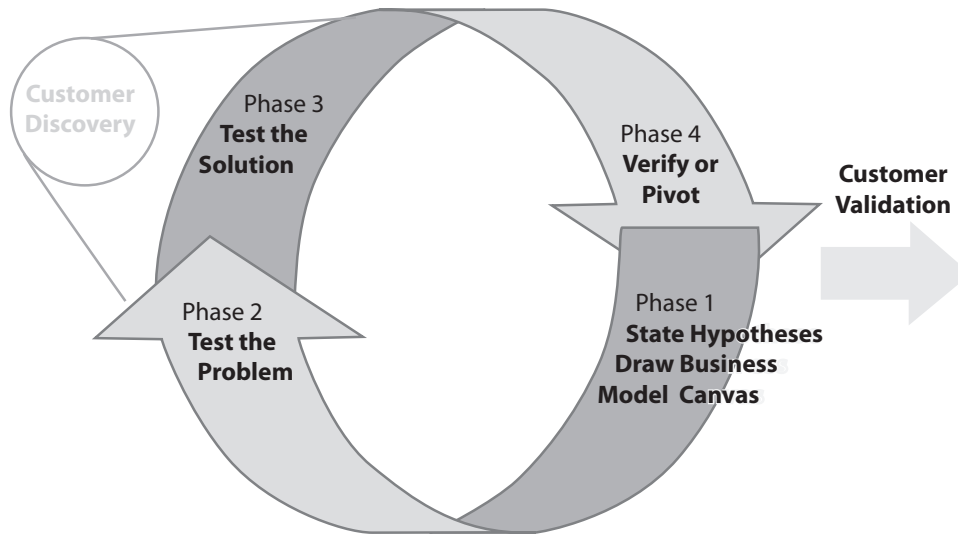
Customer Discovery: Overview of the Process (Figure 3.6)

Diagram 3
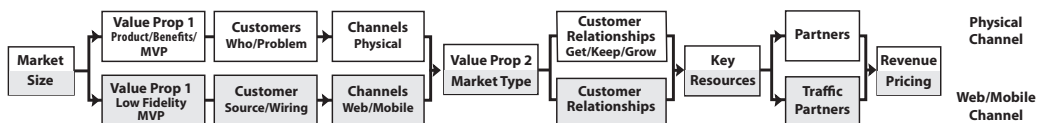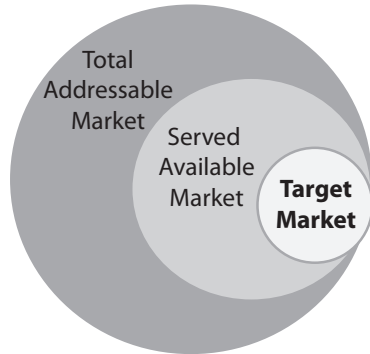
TAM = how big is the universe
SAM = how many can I reach with my sales channel
Target Market *(for a startup)* **=** who will be the most likely buyers

TAM, SAM and Target Market *(Figure 4.1)*
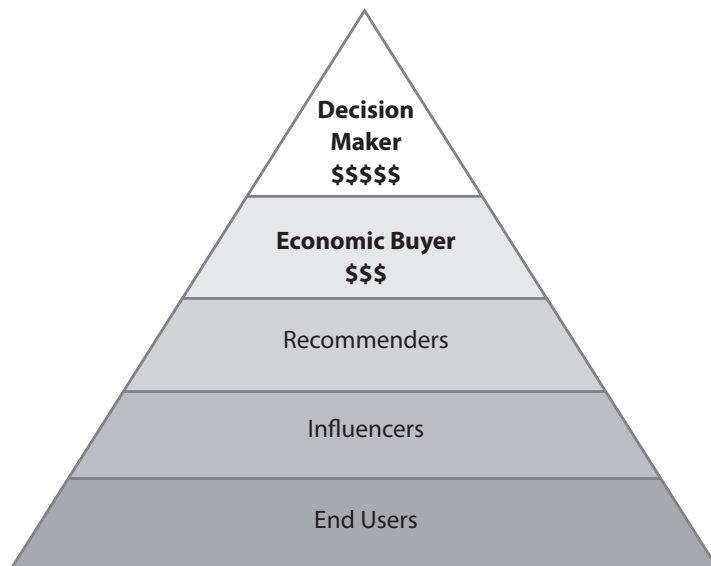
Customer Types *(Figure 4.2)*

Customer Segment: Professional-class consumers shopping frequently online

Pat the Professional

Upwardly mobile professional (some Grad Students)
Salary: $40,000 – 150,000/year
Finance, Consulting, PR, Marketing
Follows fashion/technology trends
Spends $1-15K on discretionary items online
Purchased online in last 30 days

Demographics
- Male/female, aged 18-35
- Minimum bachelors from expensive school

Traits:
- Ideas from blogs & shopping websites
- Values celebrity trends & friends' opinions
- Wants high ticket items at lowest price
- Event-driven shopper—new release or sale

Motivation
- Craves new products
- Hates tedious work
- Identifies as influencer among friends
- Fears being cheated online

Behavior
- Spends 5 hour+ monthly hearing about products
- Shares online and in person about products he loves

Budget
- $2-10K+/year in discretionary online purchases

"The XXX is awesome, I really want one. I know I just bought the YYY, but it's probably time to upgrade."

~5.9M "Pat the Professionals" in US

Drawn from top 1/3 of 17.8M frequent online shoppers

17.8M based on 40.2M Professionals (2008 Census) * 0.762 US Internet Penetration (Nielsen 2010Q1) * 0.58 consumers shopping online in last month (Nielsen 2010Q1)

Employment of women and men in management, professional, and related occupational groups, 2008

Median weekly earnings of women and men in management, professional, and related occupational groups, 2008

Source: US Bureau of Labor Statistics

When was the last time you made a purchase over the Internet?

Online Recommendation Market Opportunity (conservative strawman #s)
Assuming 10% share, 5% affiliate fees

Top Shoppers
(~$7B/year spend): ~ $35M/year

Professional-class frequent shoppers
(~$1.8B/year): ~ $9M/year

Other Professional-class shoppers
($0.7B/year): ~3.5M/year

Customer Archetype *(Figure 4.3)*

MammOptics
Customer Workflow
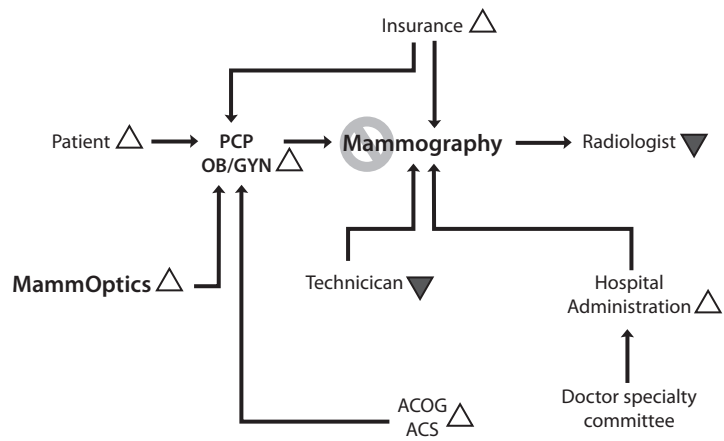
A Sample Organizational/Influence Map (Figure 4.4)

Archetype Highlights	Customer Acquisition Guidance
Age 40-55, high income	Use for targeting mass banner ad, textlink campaigns
Two working professionals	Don't advertise or promote during the workday; inefficient
Buy fresh gourmet produce	Reach these bloggers, co-promote with gourmet food sites
Drive luxury cars	Consider co-promotion offers from high-end auto Websites
Frequent business travelers	Send press releases to travel Web sites, bloggers
Cooks only on weekends	Don't run AdWords during the week to save dollars send e-mail blasts, Tweets, texts Thursday/Friday
Entertain friends at home often	Co-promote with home, entertainment sites, blogs

A Guide to Using Customer/Archetypes to Drive Strategy (Figure 4.5)

"Day in the Life" Highlights	Customer Acquisition Guidance
• Under 15 min/day on social nets	Facebook, social media a low marketing priority
• 3 texts daily, mostly with spouse	Forget Twitter for this audience
• Read cooking magazines, sites	Big PR push in this arena: recipes, press releases, etc.
• Watch celebrity chefs 2-3x/week	Try to get founders as guests on shows; co-promote
• Hour a day reading news sites	Reach food/lifestyle editors at news publications
• 20 min/day online not for work	Test before spending on e-mail blasts, online ad campaigns
• 45 min/day listening to NPR	Consider weekend sponsorship, send press releases, call in
• Talk/e-mail 15-20 same friends	Provide recipes, ideas, discounts to circulate to friends

A Guide to Using A Day-in-the-Life to Drive Strategy (Figure 4.6)

	Our Access	
	Hard	**Easy**
High	• Google SEO • Huff Po, AOL, Major media • Major blogs	• Google Ad Words • Other PPC • Textlinks
Low	• Private Communities • Academic websites	• Little blogs • Friends' Facebook pages • My Twitter Feed

Audience Reach (row label)

Consumer Web Influence Map (Figure 4.7)
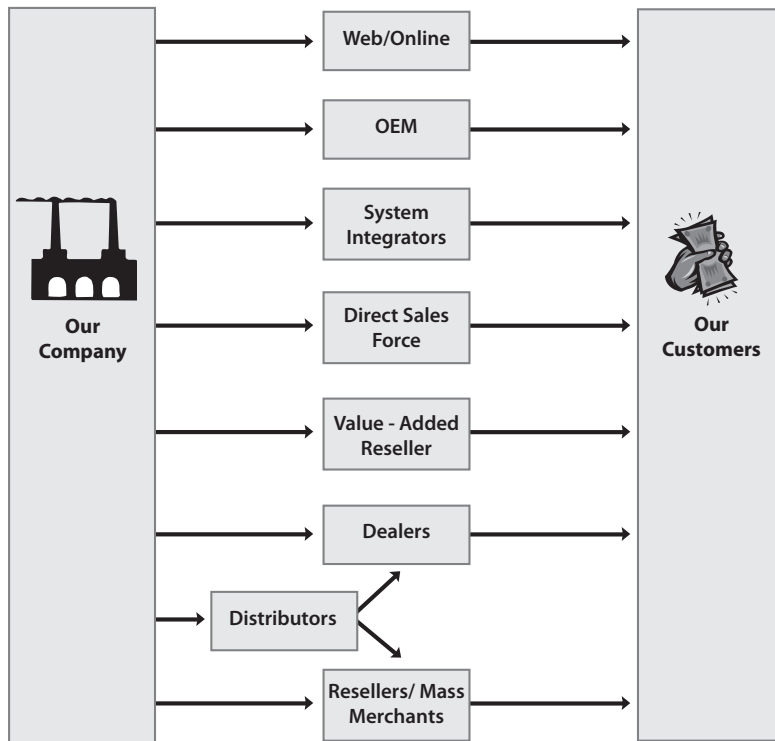
Physical Distribution Channel Choices *(Figure 4.8)*

Our Company

| Dedicated E-Commerce *Your Website* |
| Platform App Store *Apple, Android* |
| 2- Step Distribution *Amazon, CDW* |
| Aggregator *Lendingtree, Zappos* |
| Social Commerce *Facebook, Twitter* |
| Flash Sales *Groupon* |
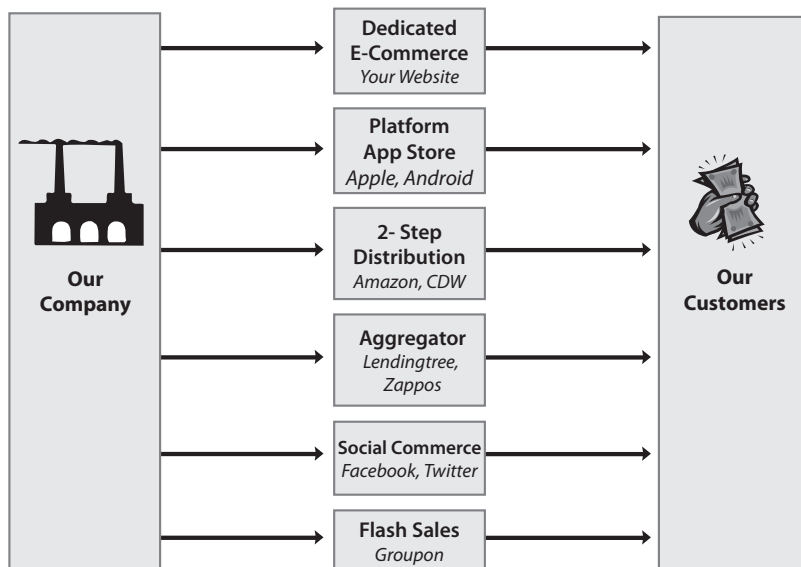
Our Customers

Web/Mobile Distribution Channel Choices (Figure 4.9)

	Existing Market	Resegmented Market (niche or low cost)	New Market	Clone Market
Customers	Existing	Existing	New/New usage	New
Customer Needs	Performance	1. Cost 2. Perceived need/ problem	Simplicity & Convenience	New idea already proved overseas
Product Performance	Better/Faster	1. Good enough at the low end 2. Good enough for new niche	Low in "traditional attributes," improved by new customer metrics	Good enough for local market
Competition	Existing Incumbents	Existing Incumbents	Non-consumption/ Other startups	None, foreign originators
Risks	Existing Incumbents	1. Existing Incumbents 2. Niche strategy fails	Market adoption	Cultural adoption

Market Type Trade-Offs (Table 4.1)

	Market Share	Cost of Entry (vs. Leader's Sales/ Marketing Budget)	Entry Strategy
Monopoly	>75%	3x	Resegment/New
Duopoly	>75%	3x	Resegment/New
Market Leader	>41%	3x	Resegment/New
Unstable Market	>26%	1.7x	Existing/Resegment
Open Market	>26%	1.7x	Existing/Resegment

Market Type—Cost of Entry (Table 4.2)
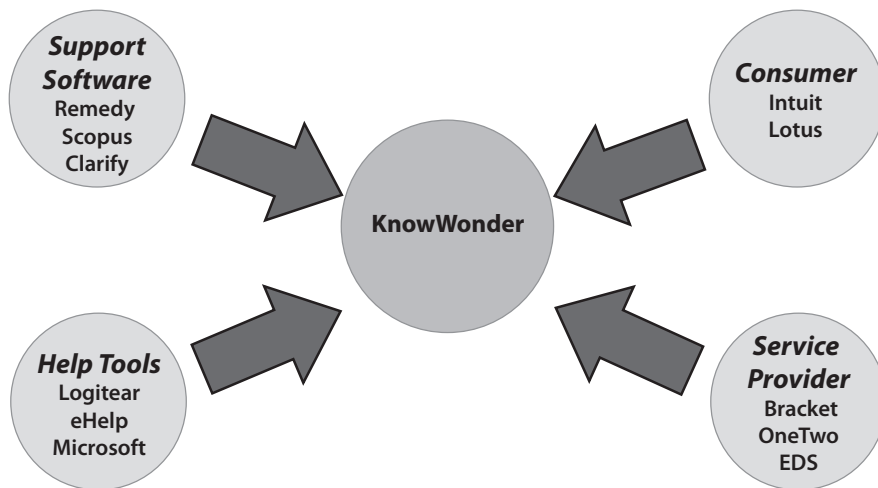
Example of a Market Map (Figure 4.10)

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Earned and Paid Media

"Get Customers"

"Grow Customers"

Awareness

Interest

Consideration

Purchase

Loyalty Programs

Product Updates

"Keep Customers"

Un-Bundling

Up-Sell

Cross-Sell

Referrals

Viral Loop

Viral Loop

Customer satisfaction surveys

Customer check-in calls
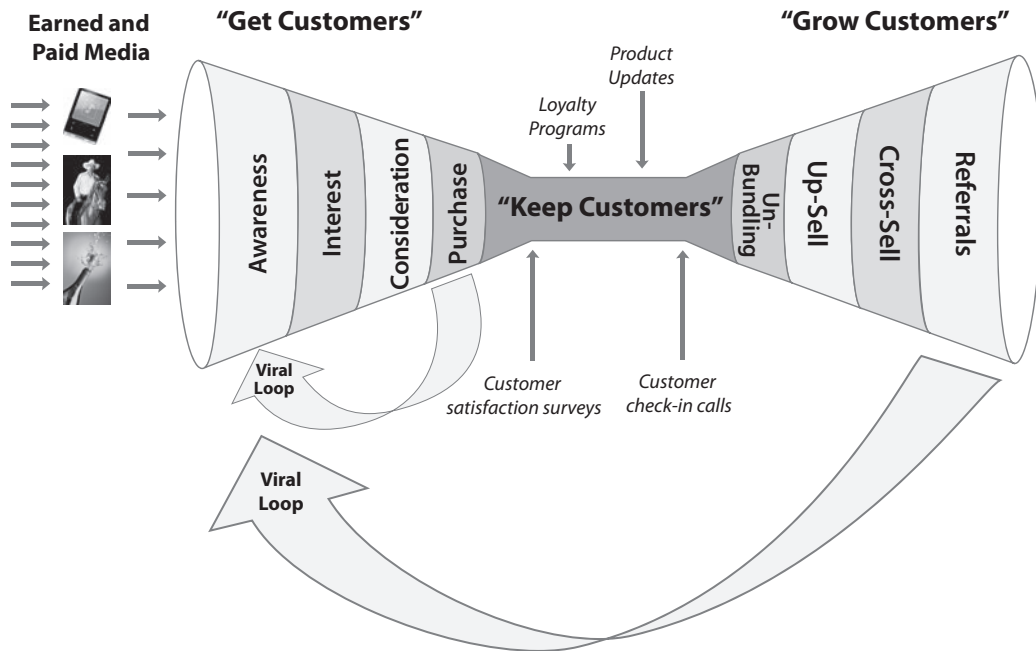
The "Get, Keep, Grow" Funnel in Physical Channels *(Figure 4.11)*

	Physical Channels	**Web/Mobile Channels**
GET customers (demand creation)	*Strategy:* Awareness, Interest, Consideration, Purchase *Tactics:* Earned Media (pr, blogs, brochures, reviews), Paid Media (ads, promotions), Online tools	*Strategy:* Acquire, Activate *Tactics:* Websites, App Stores, Search (SEM/SEO), email, Blogs, Viral, Social Nets, Reviews, PR, Free Trials, Home/Landing Page
KEEP customers	*Strategy:* Interact, Retain *Tactics:* Loyalty programs, product updates, customer surveys, Customer check-in calls	*Strategy:* Interact, Retain *Tactics:* Customization, User Groups, Blogs, Online Help, Product Tips/Bulletins, Outreach, Affiliates
GROW customers	*Strategy:* New Revenue, Referrals *Tactics:* Upsell/Cross/Next-Sell, Referrals, (maybe) Unbundling	*Strategy:* New Revenue, Referrals *Tactics:* Upgrades, Contests, Reorders, Refer friends, Upsell/Cross-Sell, Viral

Customer Relationship Tools for Physical Channels (Table 4.3)

"Get Customers"
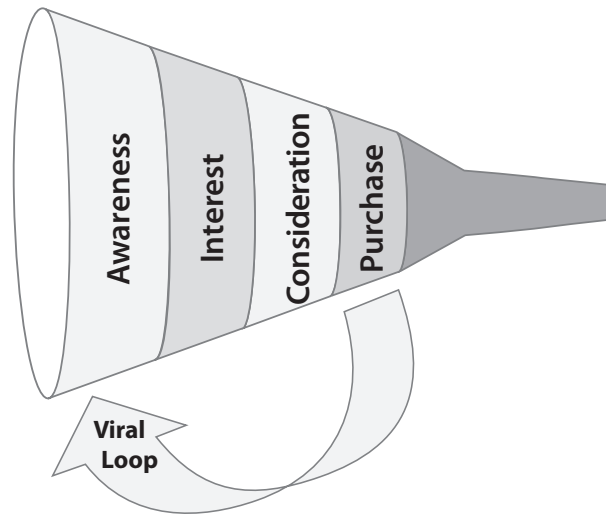
The "Get Customers" Funnel for Physical Goods (Figure 4.12)

Earned and Paid Media

"Get Customers"

PR →
Product Reviews →
Tradeshows →
Blogs/Website →
Advertising →

Awareness · Interest · Consideration · Purchase

Viral Loop
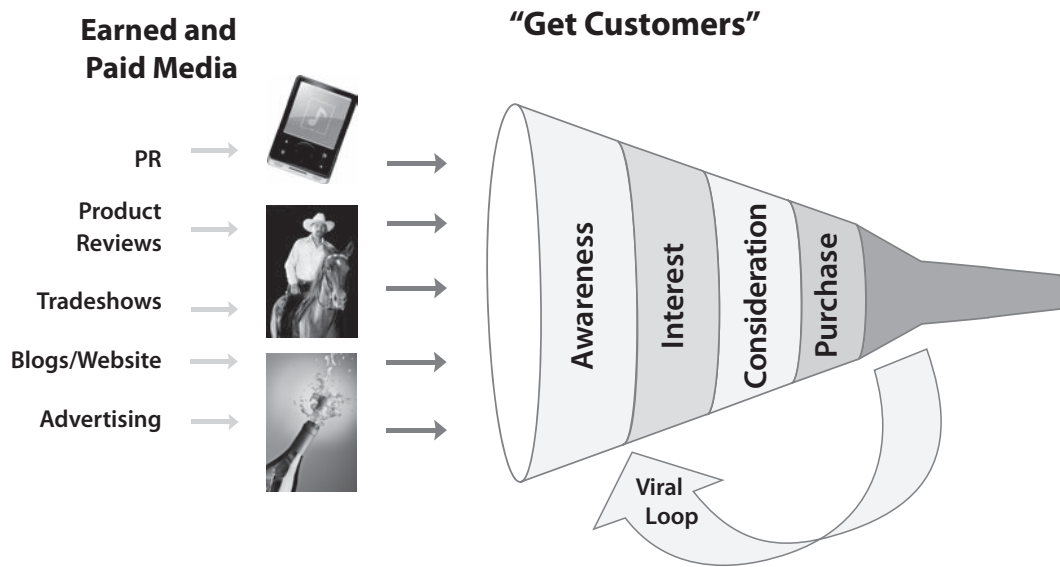
Earned and Paid Media Feeding the "Get Customers" Funnel (Figure 4.13)

	Physical Channels	**Web/Mobile Channels**
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*"**Get Customers**" Tools for Physical Channels (Table 4.3a)*

Sample Customer Relationship Program Spreadsheet

Earned Media

Program	Cost	Pass/Fail
Get 5 new product releases/trade mags	$2,000.00	50 inquiries
Hand out 1,000 flyers at biz show	$ 100.00	10 inquiries
Offer free trial loaner machines at 5 law offices	$ 500.00	2 sales
Install demo unit at 3 tech pub offices/get reviews	$ 100.00	3 sales

Paid media

Direct mail $50 coupon to 1,000 office managers	$3,000.00	20 sales
Ad in local computer-user magazine	$ 500.00	10 sales
Google AdWords drive to mini-website	$ 500.00	5 sales
Test local in-store promo with 3 Staples stores	$2,000.00	10 sales
Total spending	$8,700.00	50 sales

Program goals   50 sales plus 60 inquiries, 10% of the inquiries convert

Total   56 sales, 54 prospects

Total cost/sale   = $140.00 (8700/56) vs. profit/sale of $300.00

   √ This is a good test

Sample Customer Relationship "Tactics to Test" Hypothesis
with Return on Investment Analysis (Figure 4.14)
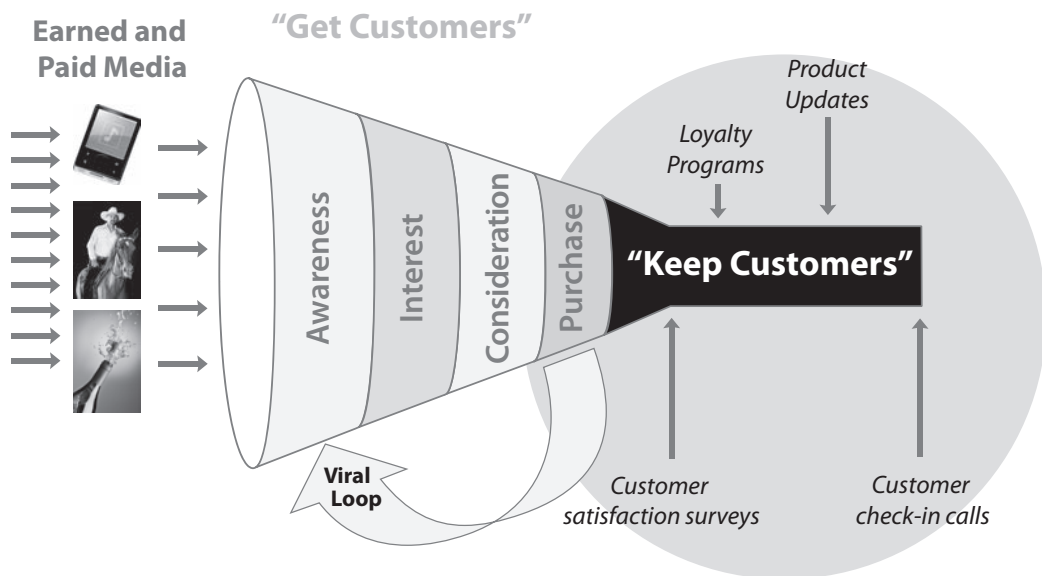
The "Keep Customers" Funnel (Figure 4.15)

	Physical Channels	**Web/Mobile Channels**
GET customers (demand creation)	*Strategy:* Awareness, Interest, Consideration, Purchase *Tactics:* Earned Media (pr, blogs, brochures, reviews), Paid Media (ads, promotions), Online tools	*Strategy:* Acquire, Activate *Tactics:* Websites, App Stores, Search (SEM/SEO), email, Blogs, Viral, Social Nets, Reviews, PR, Free Trials, Home/Landing Page
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GROW customers	*Strategy:* New Revenue, Referrals *Tactics:* Upsell/Cross/Next-Sell, Referrals, (maybe) Unbundling	*Strategy:* New Revenue, Referrals *Tactics:* Upgrades, Contests, Reorders, Refer friends, Upsell/Cross-Sell, Viral

"Keep Customers" Tools for Physical Channels (Table 4.3b)

Earned and Paid Media

"Get Customers"

Awareness

Interest

Consideration

Purchase

"Keep Customers"

Loyalty Programs

Product Updates

Un-Bundling

Up-Sell

Cross-Sell

Referrals

"Grow Customers"

Customer satisfaction surveys

Customer check-in calls

Viral Loop

Viral Loop

The "Grow Customers" Funnel (Figure 4.16)

	Physical Channels	**Web/Mobile Channels**
GET customers (demand creation)	*Strategy:* Awareness, Interest, Consideration, Purchase *Tactics:* Earned Media (pr, blogs, brochures, reviews), Paid Media (ads, promotions), Online tools	*Strategy:* Acquire, Activate *Tactics:* Websites, App Stores, Search (SEM/SEO), email, Blogs, Viral, Social Nets, Reviews, PR, Free Trials, Home/Landing Page
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"Grow Customers" Tools for Physical Channels (Table 4.3c)

Earned and Paid Media

"Get Customers"

"Grow Customers"

Acquire

Activate

Product Updates

Outreach Programs

"Keep Customers"

Up-Sell

Next-Sell

Cross-Sell

Referrals

Contests, events

Blogs, RSS, e-mails

Loyalty Programs

Viral Loop

Viral Loop

The "Get, Keep and Grow" Customers Funnel in Web/Mobile (Figure 4.17)

	Physical Channels	Web/Mobile Channels
GET customers (demand creation)	*Strategy:* Awareness, Interest, Consideration, Purchase *Tactics:* Earned Media (pr, blogs, brochures, reviews), Paid Media (ads, promotions), Online tools	*Strategy:* Acquire, Activate *Tactics:* Websites, App Stores, Search (SEM/SEO), email, Blogs, Viral, Social Nets, Reviews, PR, Free Trials, Home/Landing Page
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Customer Relationship for Web/Mobile Channels (Table 4.4)

Earned and Paid Media

"Get Customers"

PR →
Viral Marketing →
SEO →
SEM/PPC →
Blogs/Website →
Affiliate Marketing →
Advertising →
Tradeshows →

Acquire

Activate

Viral Loop

The "Get Customers" Funnel in Web/Mobile Channels (Figure 4.18)

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	Physical Channels	Web/Mobile Channels
GET customers (demand creation)	*Strategy:* Awareness, Interest, Consideration, Purchase *Tactics:* Earned Media (pr, blogs, brochures, reviews), Paid Media (ads, promotions), Online tools	*Strategy:* Acquire, Activate *Tactics:* Websites, App Stores, Search (SEM/SEO), email, Blogs, Viral, Social Nets, Reviews, PR, Free Trials, Home/Landing Page
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"Get Customers" Tools for Web/Mobile Channels *(Table 4.4a)*

Earned and Paid Media

"Get Customers"

PR →
Viral Marketing →
SEO →
SEM/PPC →
Blogs/Website →
Affiliate Marketing →
Advertising →
Tradeshows →

Acquire

Activate

Viral Loop

Acquisition and Activation in Web/Mobile Channels (Figure 4.19)
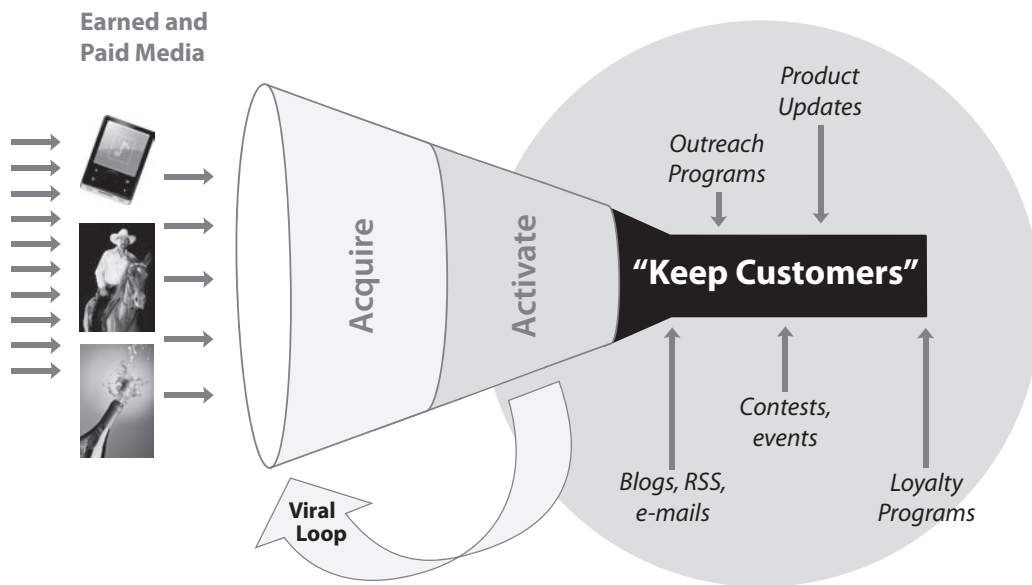
The "Keep Customers" Funnel in Web/Mobile Channels (Figure 4.20)

	Physical Channels	Web/Mobile Channels
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"Keep Customers" Tools in Web/Mobile Channels *(Table 4.4b)*

Earned and Paid Media

"Get Customers"

"Grow Customers"

Acquire

Activate

Product Updates

Outreach Programs

"Keep Customers"

Up-Sell

Next-Sell

Cross-Sell

Referrals

Viral Loop

Contests, events

Blogs, RSS, emails

Loyalty Programs

Viral Loop
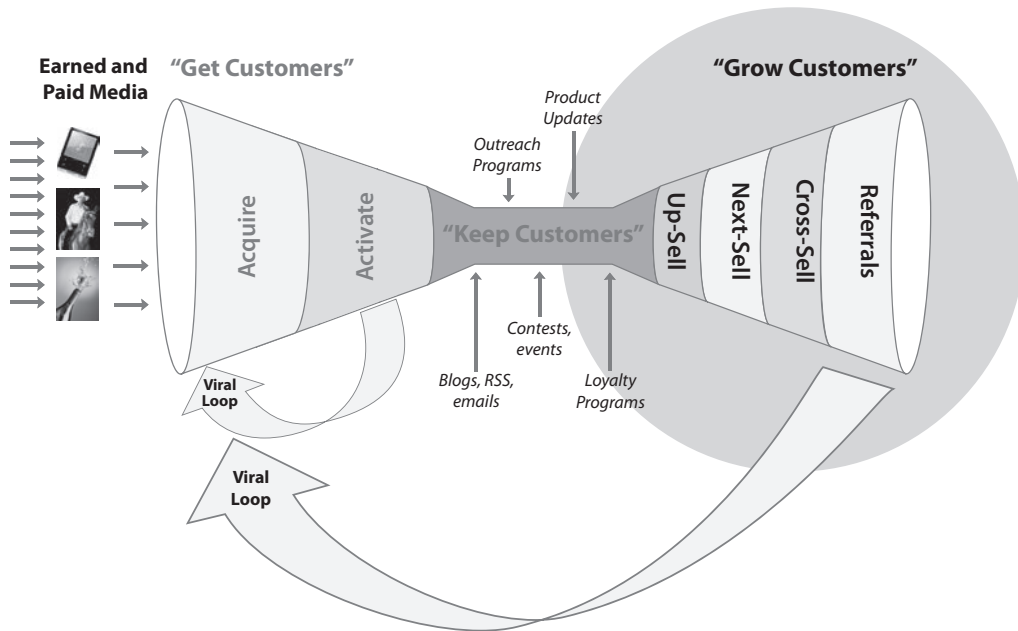
The "Grow Customers" Funnel in Web/Mobile Channels (Figure 4.21)

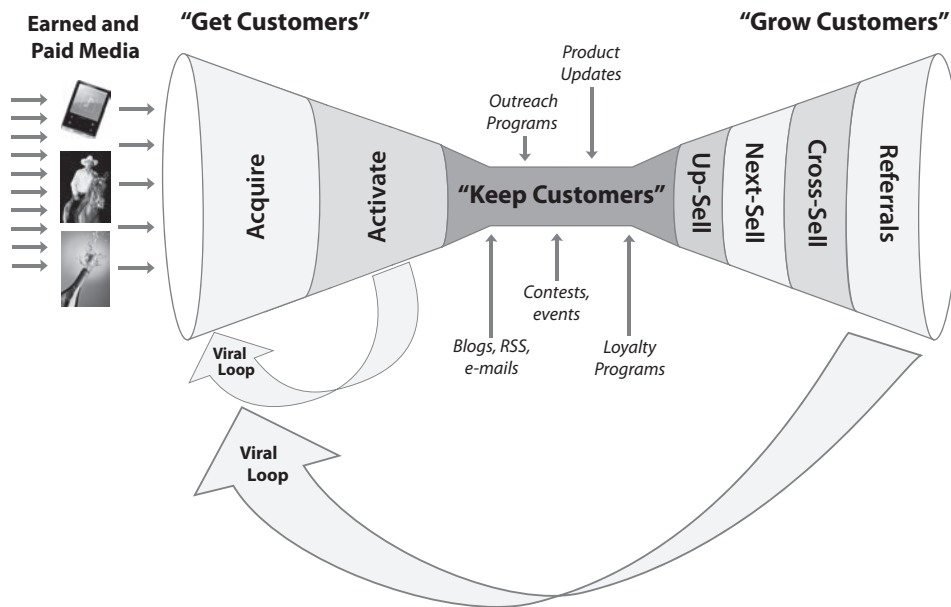|	**Physical Channels**	**Web/Mobile Channels**
GET customers (demand creation)	*Strategy:* Awareness, Interest, Consideration, Purchase *Tactics:* Earned Media (pr, blogs, brochures, reviews), Paid Media (ads, promotions), Online tools	*Strategy:* Acquire, Activate *Tactics:* Websites, App Stores, Search (SEM/SEO), email, Blogs, Viral, Social Nets, Reviews, PR, Free Trials, Home/Landing Page
KEEP customers	*Strategy:* Interact, Retain *Tactics:* Loyalty programs, product updates, customer surveys, Customer check-in calls	*Strategy:* Interact, Retain *Tactics:* Customization, User Groups, Blogs, Online Help, Product Tips/Bulletins, Outreach, Affiliates
GROW customers	*Strategy:* New Revenue, Referrals *Tactics:* Upsell/Cross/Next-Sell, Referrals, (maybe) Unbundling	*Strategy:* New Revenue, Referrals *Tactics:* Upgrades, Contests, Reorders, Refer friends, Upsell/Cross-Sell, Viral

"Grow Customers" Tools for Web/Mobile Channels (Table 4.4c)

TYPES OF INTELLECTUAL PROPERTY PROTECTION

Type of IP	What is Protectable	Examples
Trademark	Branding (i.e. Nike swoosh)	marks, logos, slogans
Copyright	Creative, authored works; expressions (not ideas)	software, songs, movies, website content
Trade Secrets	Secrets with economic value (i.e. the Coke recipe)	non-public technology customer lists, formula
Contract, NDA	As defined in the contract	technology, business information
Patent	Inventions	new technology

Types of Intellectual Property Protection *(Table 4.5)*

	Channel	
	Web	**Physical**
Bits	• Freemium add-ons • Mailing list rentals • Virtual goods • SAAS sales • Upsells • Ancillary revenues	• Products • Subscriptions • Referrals • Add-on services • Upsells
Physical	• Upsells • Mailing lists • Warranties • Service • Ancillary revenues	• Products • Leasing • Service • Upsell/Next Sell • Referrals

(**Product** labels the rows on the left.)

Revenue Sources *(Figure 4.22)*
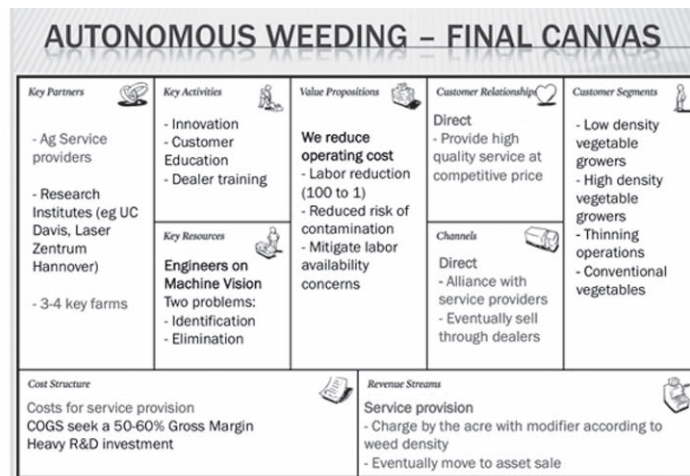
Final Draft of a Business Model Hypothesis *(Figure 4.23)*

Diagram 4

| Design Tests | Customer Contacts | Problem Understanding | | Market Knowledge | Physical Channel |
| | Build Your Low Fidelity MVP | Low Fidelity MVP Test | Customer Understanding | Traffic/ Competitive Analysis | Web/Mobile Channel |

Tests

Hypotheses
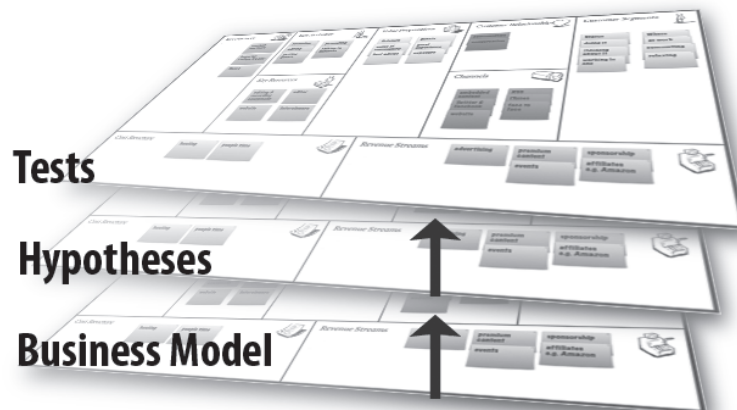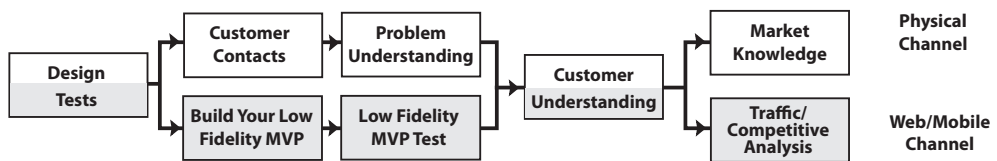
Business Model

Business Model/Hypotheses/Tests *(Figure 5.1)*
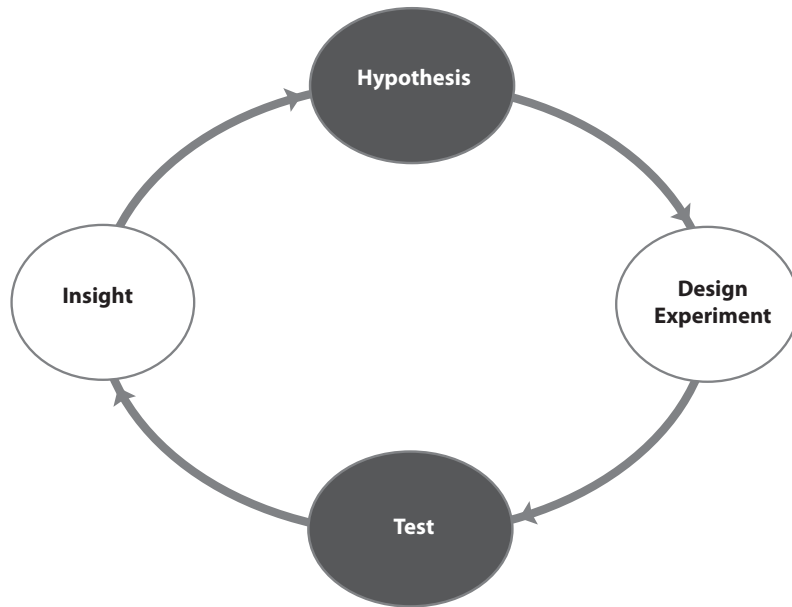
Hypothesis/Design Experiment/Test/Insight *(Figure 5.2)*

Global Maximum versus Local Maximum Response Rates *(Figure 5.3)*
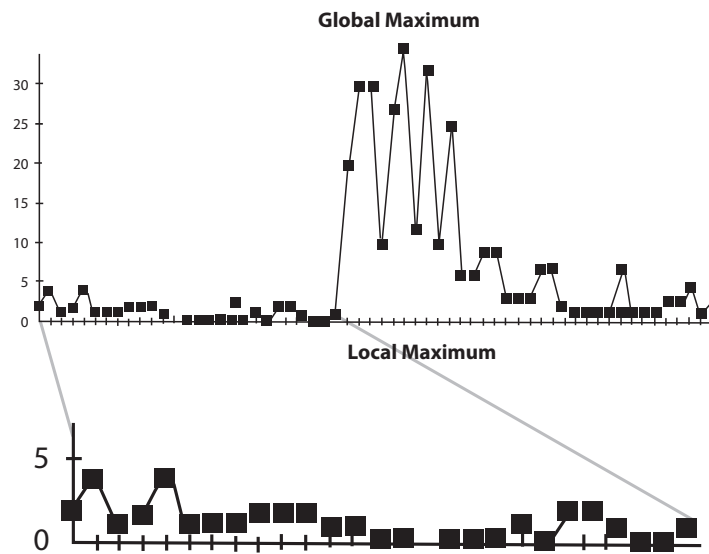
List of Problems	Today's Solution	New Solution
1.	1.	1.
2.	2.	2.
3.	3.	3.

Customer Problem Presentation (Figure 5.4)

Customer	Excited	Urgent Need	Business Impact	Work-around	120 day	Key Decider	120 x 2	TOTAL
A	3	3	3	2	2	3	2	18
B	2	2	2	1	2	2	2	13
C	2	2	1	1	1	2	1	10
D	3	2	1	1	3	2	3	15
E	1	3	1	1	1	1	1	9
F	1	1	1	1	1	1	1	7
Average	2	2.16	1.5	1.16	1.6	1.8	1.6	

Sample Customer Discovery Scorecard (Figure 5.5)

Channel

	Web	Physical
Bits/Virtual	On-line Interaction	
Physical		Face-to-Face Interaction

Product
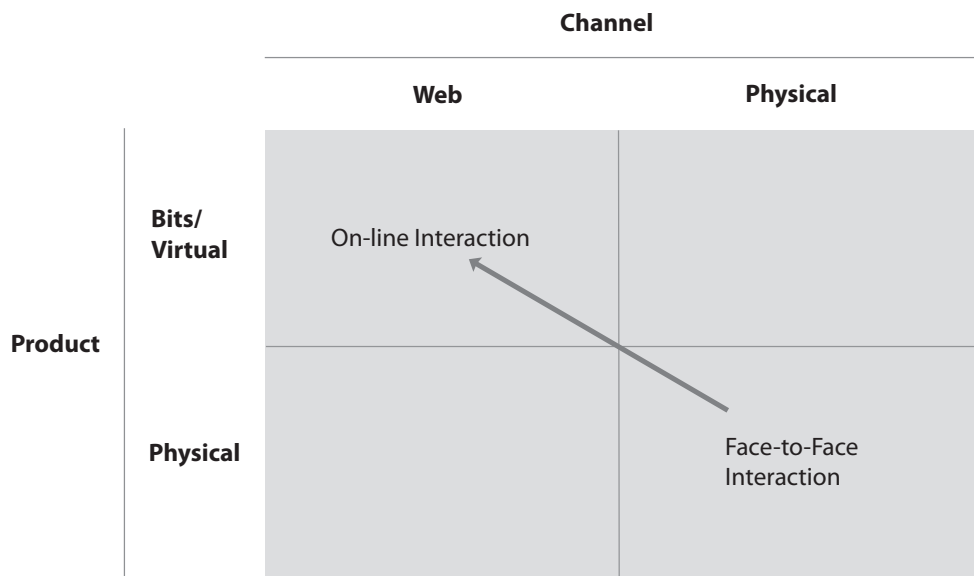
Understanding Customer Interactions (Figure 5.6)

Diagram 5

```
                ┌──────────────┐   ┌──────────────┐
                │Create Solution│→ │Test Solution │           Physical
                │ Presentation │   │with Customer │           Channel
┌──────────────┐│              │   │              │   ┌──────────────┐   ┌──────────────┐
│Update Business││              │   │              │   │Update Business│ │1st Advisory  │
│Model and Team │                                     │ Model Again  │→ │Board Members │
└──────────────┘┌──────────────┐   ┌──────────────┐   └──────────────┘   └──────────────┘
                │High Fidelity │→ │   Measure    │                       Web/Mobile
                │  MVP Test    │   │  Customer    │                       Channel
                │              │   │  Behavior    │
                └──────────────┘   └──────────────┘
```
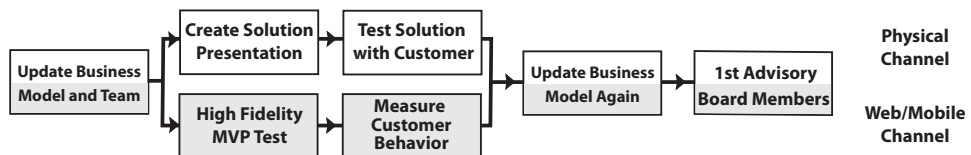
AJAX Customer Discovery Report Card
Company Name_____ Date_____
Contact Name_____ Job Title_____Interviewed by_____
Years in field____with company___ reports to _ (circle one) approves/buys/influences sale
Key problems in my industry: (in priority order, as customer tells it)
1._____
2._____
What our product solves/doesn't solve for customer:
_____
Key solution elements: price-features-easy to get-easy to use-training-support
Rate customer pain with key problem/need (5 is torture): 1 2 3 4 5
How they solve problem today:_____
Customer satisfaction with current solution (5 very happy): 1 2 3 4 5
(Circle:) Has workaround /Has budget to fix /Has tried and failed /Pressure to fix from above
New/different problem(s) customer faces/needs solved/wishes we solved:
_____
Key features desired/not needed in new product/solution:
_____
"If I had a magic wand, a product would appear that…"
_____
Company process for testing/buying new products
(people/approvals/timing/bidding/other):
_____
How/where they'd buy:_____
Where they go/read/learn about new products: _____
Key decision-maker/where to start/who else to see:_____
_____
Price considerations: range/customer estimate/similar products:_____
_____
BEST ESTIMATE/number of units (initial range):_____ to _____ year two:_____ to __
BEST GUESS price_____ % probability_____ sale month_____ direct/channel___
Is interview subject (circle)
Earlyvangelist Advisory Board Industry Influential Saboteur C-Level
Referrals to others "like him or her ": (name)_____ (company)_____
                                          (name)_____ (company)_____
Others to see at this company: (name)_____ (company)_____
                                          (name)_____ (company)_____
Follow-up opportunities:
_____
(Circle) return with product/return meet others/provide data, specs/sample/write order

REMEMBER: referrals to other companies…can I call you again…send thank-you note

Sample Customer Discovery Report Card *(Figure 6.1)*

Diagram 6

| Verify: Product/ Market Fit | → | Verify: Customers and How to Reach Them | → | Verify: Can We Make Money? | → | Pivot or Proceed? | All Channels |
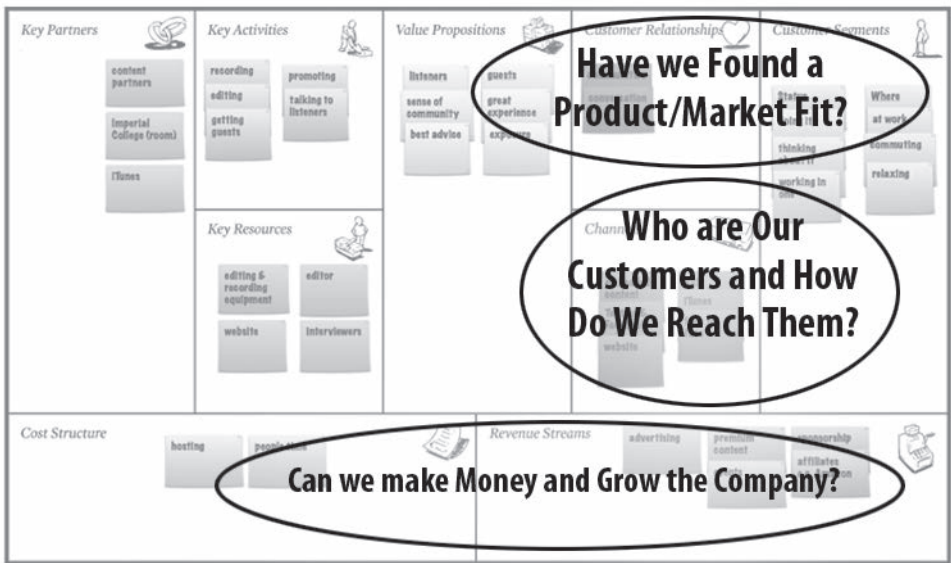
Is This Business Worth Doing? *(Figure 7.1)*

category	q1	q2	q3	q4	TOTAL
direct revenue	500,000	750,000	1,000,000	1,200,000	3,450,000
net channel revenue	200,000	300,000	400,000	500,000	1,400,000
TOTAL revenue	**700,000**	**1,050,000**	**1,400,000**	**1,700,000**	**4,850,000**
less acquisition costs	-280,000	-420,000	-560,000	-680,000	-1,940,000
less basic operating costs	-800,000	-800,000	-800,000	-800,000	-3,200,000
CASH BURN	**-380,000**	**-170,000**	**40,000**	**220,000**	**-290,000**
Cash at quarter end	20,000	***-150,000***	***-110,000***	100,000	

Sample Financial Analysis (Figure 7.2)

Overview of the Customer Validation Process

Get Ready to Sell

Craft Positioning → Create Sales and Collateral Materials → Hire Sales Closer → Sales Channel Roadmap → Develop the Sales Roadmap → Formalize Advisory Board — Physical Channel

"Get": Acquire/Activate Customers → Build High Fidelity MVP → Build Metrics Toolset → Hire Data Analytics Chief — Web/Mobile Channel

Get Out of the Building and Sell to "Earlyvangelists"

Find Earlyvangelists → Get Out of Building! Test Sell → Refine Sales Roadmap → Test Sell Channel Partners — Physical Channel

Prepare Optimization Plans and Tools → Optimize Getting More Customers → Optimize "Keep" and "Grow" → Test Sell Traffic Partners — Web/Mobile Channel

Develop Positioning

Product Positioning → Match Positioning To Market Type → Company Positioning → Validate Positioning — All Channels

Pivot or Proceed

Assemble Data → Validate Business Model → Validate Financial Model → Re-Validate Business Model → Pivot or Proceed? — All Channels

Diagram 7

Customer Validation: Overview of the Process *(Figure 8.1)*

58

Diagram 8
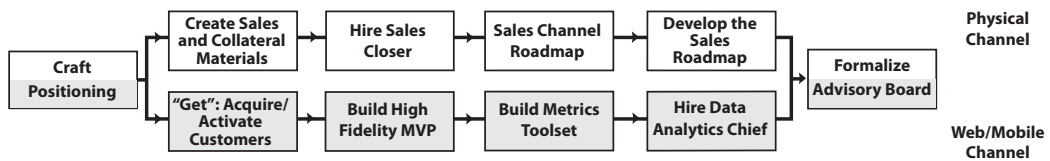
Physical Channel	Web and Mobile Channel
Product Positioning	
Develop Sales Materials and Collateral	"Get": Acquire/Activate Plans/Tools
Hire Sales Closer	Build High Fidelity MVP
Develop Channel Action Plan	Build Metrics Toolset
Refine the Sales Roadmap	Hire "Data Chief"
Create Advisory Board	

Phase 1 – Get Ready to Sell *(Figure 9.1)*

PRODUCT POSITIONING STATEMENT TEMPLATE
• **For** [target end user]
• **Who wants/needs** [compelling reason to buy]
• **The** [product name] **is a** [product category]
• **That provides** [key benefit]
• **Unlike** [main competitor]
• **The** [product name] [key differentiation]

Product Positioning Statement *(Figure 9.2)*

PRODUCT POSITIONING STATEMENT EXAMPLE
• *Mobiledough* is **FOR** busy executives who travel a lot
• **WHO WANT/NEED** to do expense reports accurately in the least possible time
• And Mobiledough **IS AN** easy-to-use tool for receipt tracking and expense tabulation
• **THAT PROVIDES** a detailed weekly expense report in under 10 minutes
• **UNLIKE** expense report packages, Mobiledough scans, sorts and totals receipts and presents a near-final report draft for review in 11 popular expense reporting formats

Product Positioning Statement Example *(Figure 9.3)*

"Get Customers" Funnel

Awareness **Interest** **Consideration** **Purchase**

Viral Loop
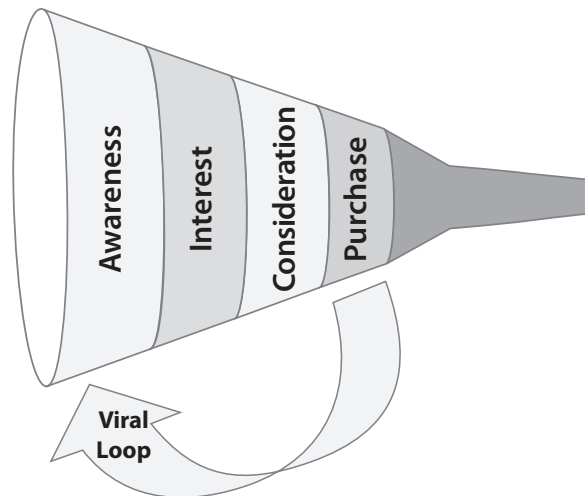
The "Get Customers" Funnel in Physical Channels (Figure 9.4)

	Physical Channels	Web/Mobile Channels
GET customers (demand creation)	*Strategy:* Awareness, Interest, Consideration, Purchase *Tactics:* Earned Media (pr, blogs, brochures, reviews), Paid Media (ads, promotions), Online tools	*Strategy:* Acquire, Activate *Tactics:* Websites, App Stores, Search (SEM/SEO), email, Blogs, Viral, Social Nets, Reviews, PR, Free Trials, Home/Landing Page
KEEP customers	*Strategy:* Interact, Retain *Tactics:* Loyalty programs, product updates, customer surveys, Customer check-in calls	*Strategy:* Interact, Retain *Tactics:* Customization, User Groups, Blogs, Online Help, Product Tips/Bulletins, Outreach, Affiliates
GROW customers	*Strategy:* New Revenue, Referrals *Tactics:* Upsell/Cross/Next-Sell, Referrals, (maybe) Unbundling	*Strategy:* New Revenue, Referrals *Tactics:* Upgrades, Contests, Reorders, Refer friends, Upsell/Cross-Sell, Viral

"Get Customers" Tools for Physical Channels (Table 9.1)

	Awareness	Interest	Consideration	Sales
Early-vangelist Buyers	Corporate website Brochure	General sales presentation(s)	Tailor presentations to each customer	Contacts
	Solution data sheets	White paper on business issue	Analyst report on business problem	Price list
	Influential bloggers	Product Presskit		
	Tech websites	Product brochure	ROI demonstration	
	Direct mail pieces	Viral marketing/ e-mail tools	Follow-up e-mail	
		Product data sheets	Pricing quote form	Thank-you note/e-mail
Technology Gatekeeper	Influential Bloggers	Tech presentation	Tech presentation on specific customer issues	Thank-you note
	Tech websites	Tech white paper	Tech white paper	
		Analyst report on technical problem	Tech overview data sheets with architecture diagrams	

Example of a Business-to-Business, Direct-Sales Collateral Plan (Table 9.2)

	Physical Channels	Web/Mobile Channels
GET customers (demand creation)	*Strategy:* Awareness, Interest, Consideration, Purchase *Tactics:* Earned Media (pr, blogs, brochures, reviews), Paid Media (ads, promotions), Online tools	*Strategy:* Acquire, Activate *Tactics:* Websites, App Stores, Search (SEM/SEO), email, Blogs, Viral, Social Nets, Reviews, PR, Free Trials, Home/Landing Page
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GROW customers	*Strategy:* New Revenue, Referrals *Tactics:* Upsell/Cross/Next-Sell, Referrals, (maybe) Unbundling	*Strategy:* New Revenue, Referrals *Tactics:* Upgrades, Contests, Reorders, Refer friends, Upsell/Cross-Sell, Viral

"Get Customers" Tools for Web/Mobile Channels (Table 9.3)

The "Get Customers" Funnel in Web/Mobile Channels (Figure 9.5)

tool	who	what	element	cost	week-4	week-3	week-2	week-1	launch
e-mail blitz campaign	joe	friends/ bought lists	3 e-mail invites each	2,000	buy 3-4 test lists; e-mail platform	outline mails, offers, headlines	finalize creative, lists (x6)	set up, test blast system	launch
small biz ad banners	sue	free trial offer	CPA, banners, e-mails	5,000	identify sites, get rates, ad ideas	start creative, negotiate rates	final ads, need IAB sizes	a/b tests, cut POs	launch
CPA e-mail campaign	sue	free trial offer	mailer gets $5 per	5,000	talk to mailers, start creative	test first creative with 2 mailers	pick lists, set a/b tests	final, creative cut POs	week 3
public relations	sue	new product news	releases, demos	1,000	call media, offer online demo	more demos start blasts	launch event? Bloggers	interviews, more blasts	keep going
PPC/ adwords	joe	small biz tax savings	2-3 test campaigns	8,000	Brainstorm-ing, shop competitors	layout word track (test jargon)	finalize 3 test campaign	Rotate	
SEO/natural search	joe	optimize website		1,000	select vendor, start asap	change text, metatags	collect links keep adding	optimize	optimize
flyer distribution	all	flyers to small offices	addresses, numbers	500	find bldgs w/small cos, list	draft flyer, offer	book staff, hire temps	plan routes, print flyer	blitz
small biz conference	sue	small booth/ free cd	demo cd at show	2,000	order space, find cheap booth	figure demo CD vs. flyer costs	signage, staffing plan	invite press, get ready	attend

A Sample Acquire Plan and Timetable (Figure 9.6)

"Get Customers" Funnel

Earned and Paid Media

PR
Viral Marketing
SEO
SEM/PPC
Blogs/Website
Affiliate Marketing
Advertising
Tradeshows

Home Page
Contests
E-mail

Acquire
Activate

Demos
Trial Offers
Viral Loop
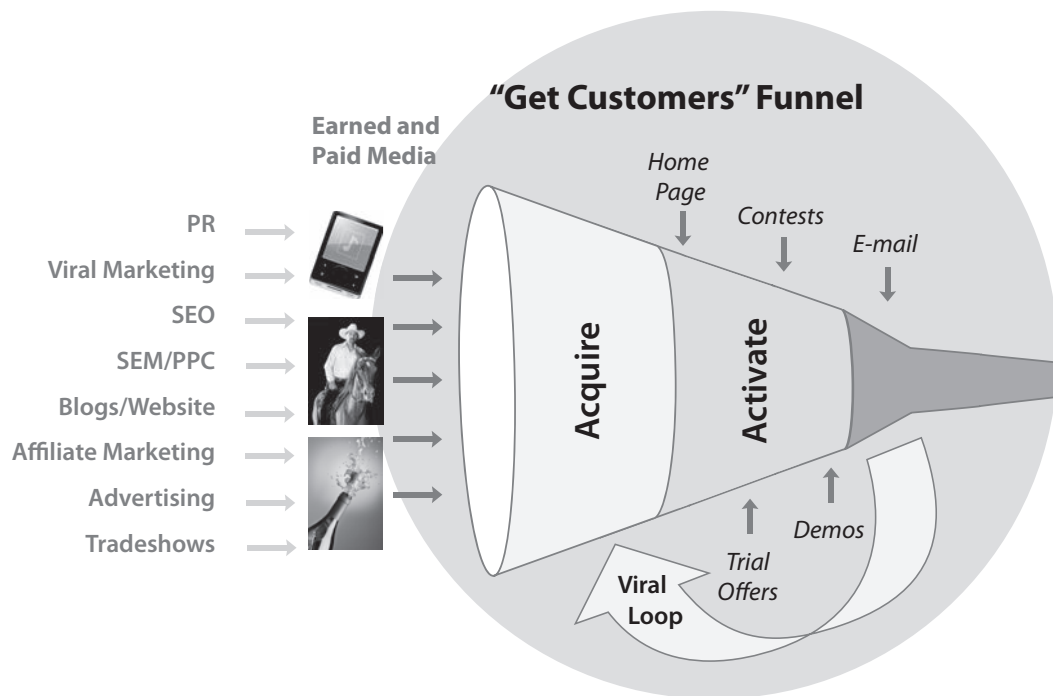
The "Get Customers" Activation Activities in Web/Mobile Channels (Figure 9.7)

The landing page is where activation most often begins. *(Figure 9.8)*

Home Page Action	First Test	Second Test	Pass/Fail Test
"Join now" button	Large/ugly vs. small	Change color/blink	>8% improvement
Make comment now	Use large box/button	Add as a pop-up	3% make comments
"Better golf" demo	It's 100% of page	large green box	>5% better signups
"See today's tips"	Present on page	Click to view	>5% better signups
Join-free golf balls	Three balls	Six balls	>25% more signups
"Free forever" offer	Flash/link to signup	Show $29/year price	10% of views signup

Off Home Page	First Test	Second Test	Pass/Fail Test
3 e-mail followups	"Free forever" offer	3 free golf balls	>8% or >25% better
Phone followup	Thanks for visiting	Sign today/get balls	>20% conversion
Lead gen websites	Come visit/no offer	Signup/get balls	>8 or >25% better
Golf radio ads	Find a tip today	Post a tip today	Users @ <$1.00 per
Tourney program ad	Get/give tip image ad	You can win $5000	Users @ <$0.50 per
Flyers at golf clubs	Post and win prizes	Join and win prizes	Users @ <$0.50 per
E-mail demo to lists	Post tips and win	Just join to win	Users @ <$0.50 per

Sample Activation Plan for a Golfers' Social Network (Table 9.4)
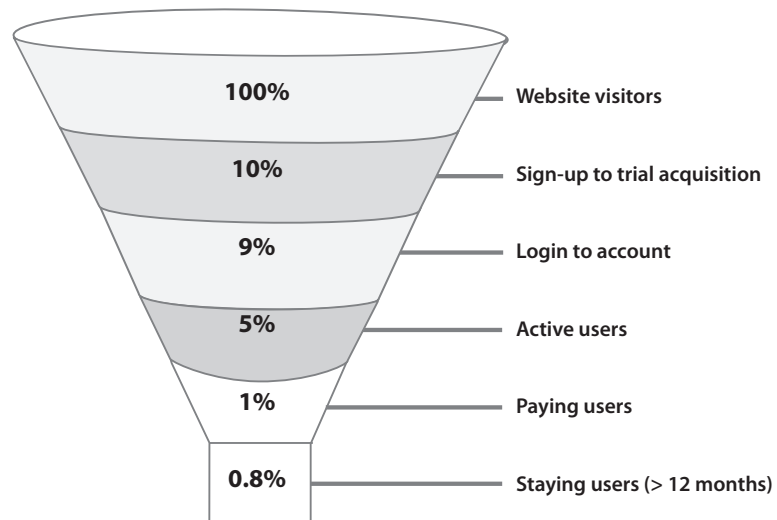
Example of a Simple Activation Funnel (Figure 9.9)

100% — Website visitors
10% — Sign-up to trial acquisition
9% — Login to account
5% — Active users
1% — Paying users
0.8% — Staying users (> 12 months)

Publisher → Publisher's Website → Customer

Direct e-book Publishing Food Chain (Figure 9.10)

Book Publishing Physical Channel Food Chain *(Figure 9.11)*
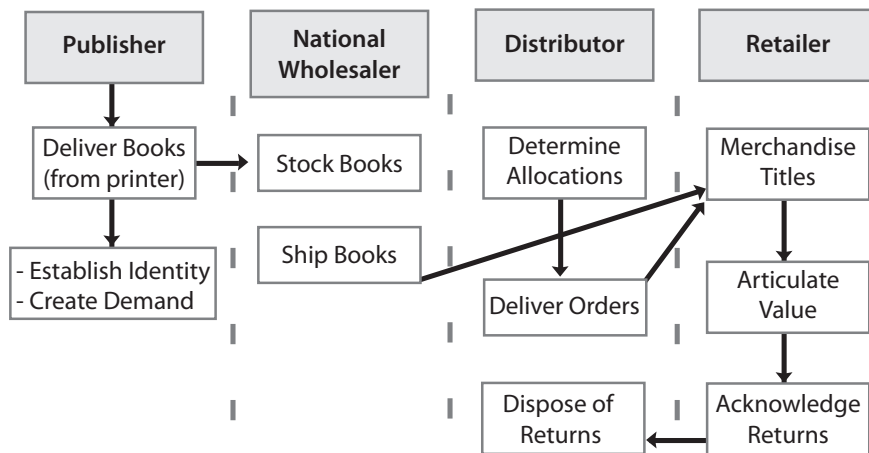
Channel Responsibility Map *(Figure 9.12)*

	Publisher	National Wholesaler	Distributor	Retailer	Customer Pays
% of Retail	35%	15%	10%	40%	100%
$s of Retail	= $7.00	− $3.00	− $2.00	− $8.00	$20.00

Publisher Receives

Author's Royalty from here
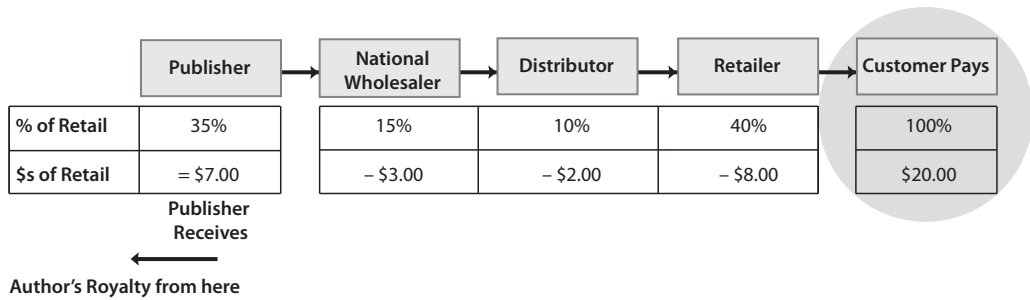
Channel Discounts *(Figure 9.13)*

Publisher	National Wholesaler	Distributor	Retailer	Customer

Allowances

Wholesale Costs

Promotional Incentives

Bills

Credit Guarantees

Payment Guarantees

Payment Guarantees

Return Rights

Credits

Payments
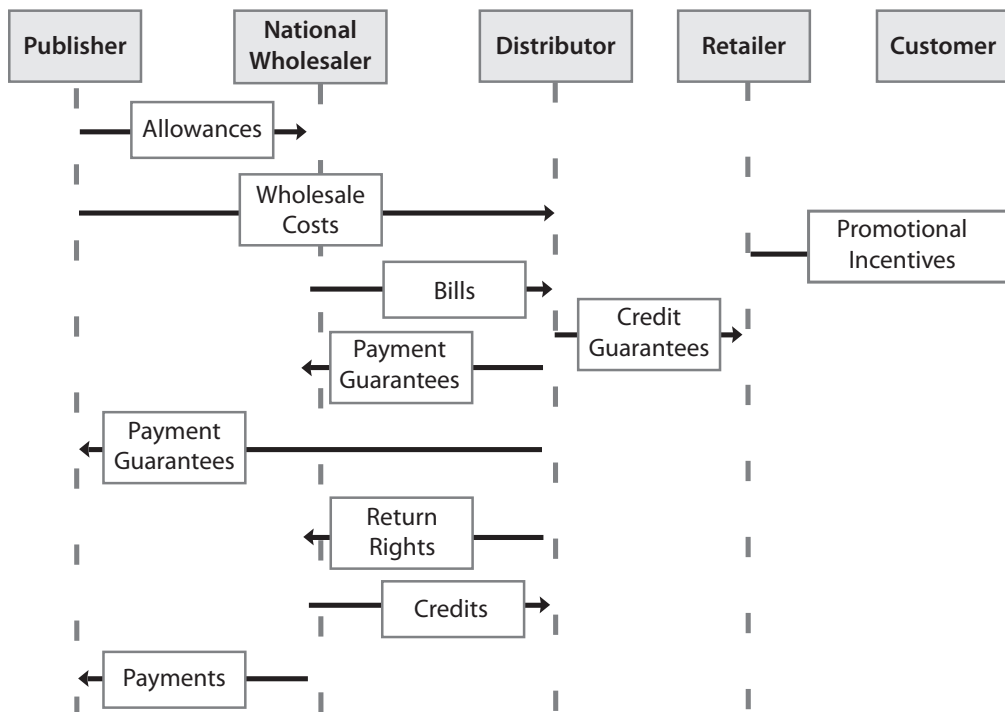
Channel Financial Relationships *(Figure 9.14)*
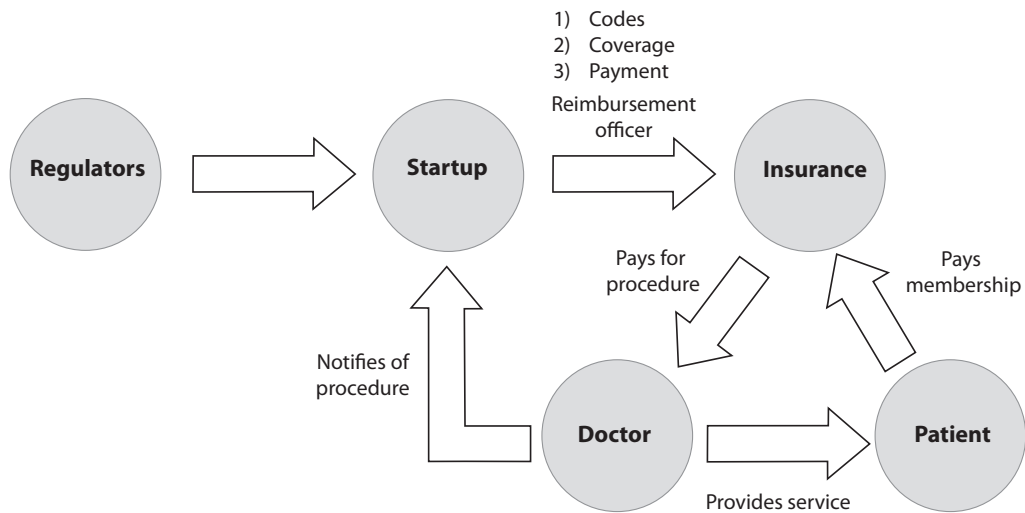
Channel Diagram for a Complex Multi-Sided Market (Figure 9.15)
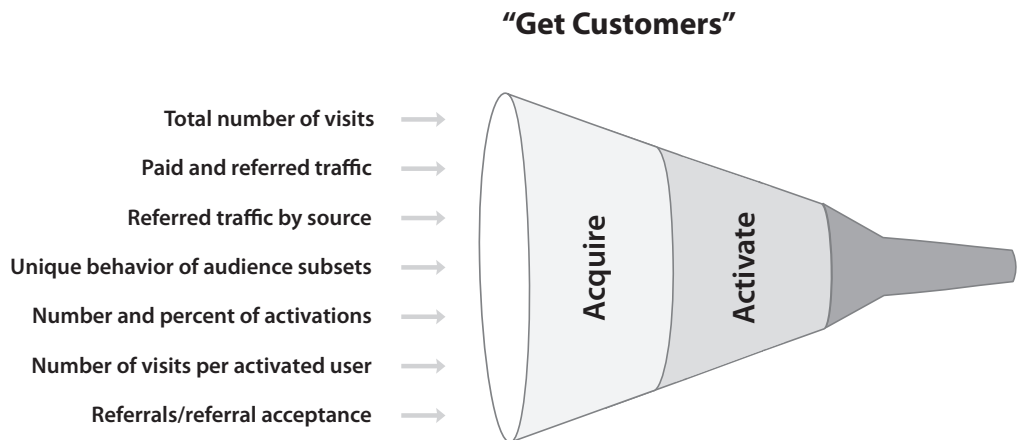
"Get Customers"

Metrics to Measure, in the "Get Customers" Funnel Web/Mobile Channels (Figure 9.16)
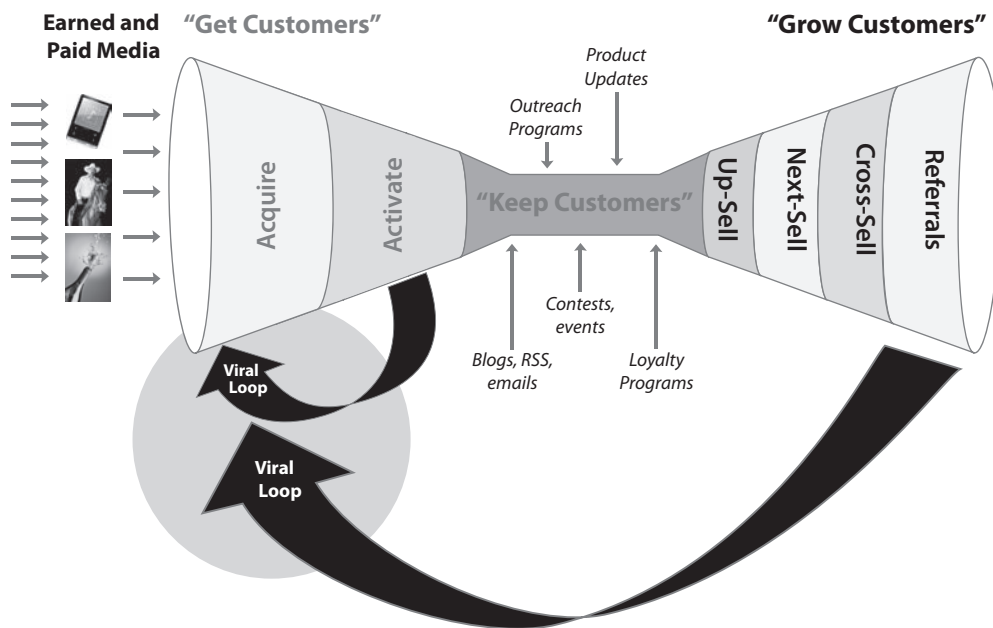
"Grow Customer" Referrals happen through "Viral loops." *(Figure 9.16b)*
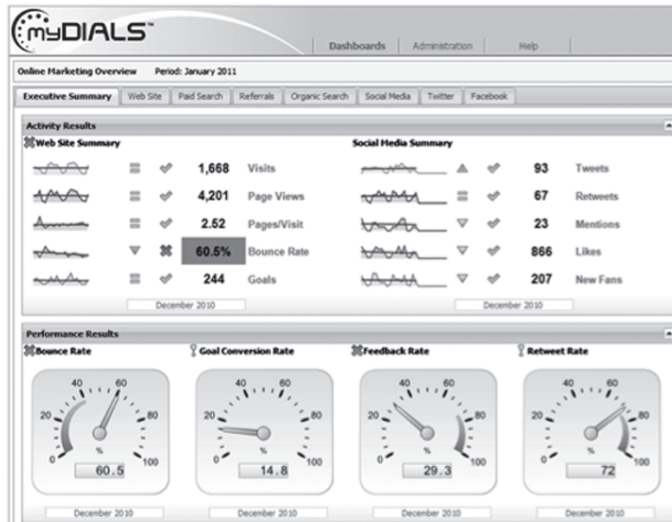
Example of a Simple Dashboard (Figure 9.17)

	Operational	Technical
High	Executive	CIO or Division IT Executive
Low	End Users	Corp. IT Staff or Division IT Staff

Support/Approval Matrix (Figure 9.18)

	Operational	Technical
High	Executive **1** ⟶ **2**	CIO or Division IT Executive
Low	End Users **3** ⟶ **4**	Corp. IT Staff or Division IT Staff

Example of an Influence Map (Figure 9.19)

Access   **Access Needs**

Finance

Product Management

Sales

Corporate Marketing

Support

IT

Intro Meetings
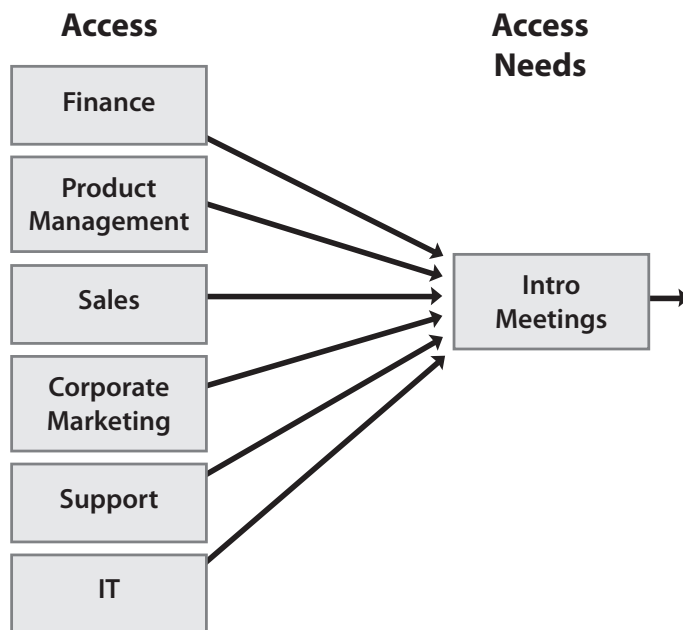
Example of an Access Map (Figure 9.20)

	Technical	Business	Customer	Industry	Sales/Marketing
Why	Product Development advice, validation, recruiting help.	Business strategy & Company Building advice.	Product advice & as potential customers. Later as customer conscience & as references.	Bringing credibility to your specific market or technology through domain expertise.	Counsel to help sort out sales, PR, press, and demand creation issues.
Who	Brand name technical luminaries for show, plus others with insight into the problems you are solving and are OK with getting their hands dirty.	Grizzled veterans who have built startups before. Key criteria: you trust their judgment and will listen to them.	People who will make great customers, who have good product instincts, and/or who are part of a customer network.	Visible name brands with customer and press credibility. May also be customers.	Experienced startup marketers who know how to create a market, not just a brand.
When	Day one of company founding and continuing through first customer ship.	Day one of company founding & ongoing.	In Customer Discovery. Identify in phase 1, begin inviting in phases 2 & 3.	In Customer Validation. Identify in phase 1, begin to invite in phase 3.	In Customer Creation. Need diminishes after Company Building.
Where	One-on-one meetings with Product Development staff at company.	Late-night phone calls, panicked visits to their home or office.	Phone calls for insight & 1-on-1 meetings with business and Customer Development staff at company.	Phone calls for insight & 1-on-1 meetings with business and Customer Development staff at company.	One-on-one meetings and phone calls with marketing and sales staff.
How Many	As many as needed.	No more than two or three at a time.	As many as needed.	No more than two per industry.	One for sales, one for marketing.

Advisory Board Roles *(Table 9.5)*

Diagram 9

| Find Earlyvangelists | → | Get Out of Building! Test Sell | → | Refine Sales Roadmap | → | Test Sell Channel Partners | Physical Channel |

| Prepare Optimization Plans and Tools | → | Optimize Getting More Customers | → | Optimize "Keep" and "Grow" | → | Test Sell Traffic Partners | Web/Mobile Channel |
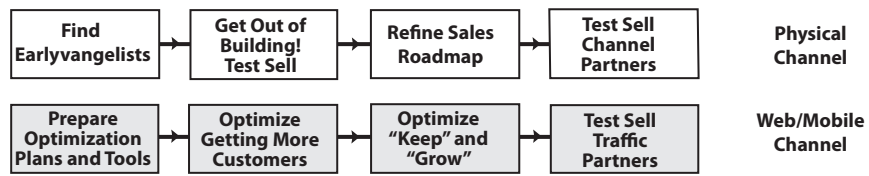
Physical Channel Startups	Web and Mobile Channel Startups
Find Earlyvangelists, Get Appointments	Prepare Optimization Plans and tools
Get out of the Building to "Test Sell"	"Get Out of the Building" Activation Tests
Refine Sales Road Map	Measure and Optimize the Results
Test Sell Channel Partners	Test Sell Traffic Partners

Steps for "Get Out of the Building and Sell" by Channel *(Figure 10.1)*

	Early Evaluators	Earlyvangelists	Scalable Customers	Mainstream Customers
Motivation	Technology evaluation	Vision-match. Understand they have a problem and have visualized a solution you have matched.	Practicality. Interested in a product that can solve an under-stood problem now.	Want to buy the standard, need the "whole product" delivered.
Pricing	Free	Using their pain threshold, you get to make up the list price and then give them a hefty discount.	Published list price and hard negotiating.	Published list price and harder negotiating.
Decision Power	Can OK a free purchase	May be able to OK a unilateral purchase. Usually can expedite a purchase. Internal cheerleader for a sale.	Buy-in needed from all levels. Standard sales process. May be able to avoid competitive bake-off.	Buy-in needed from all levels. Standard sales process. Competi-tive bake-off and/or RFP.

Four Types of Customers (Table 10.1)

Earned and Paid Media

"Get Customers"

PR
Viral Marketing
SEO
SEM/PPC
Blogs/Website
Affiliate Marketing
Advertising
Tradeshows

Acquire

Activate

Viral Loop
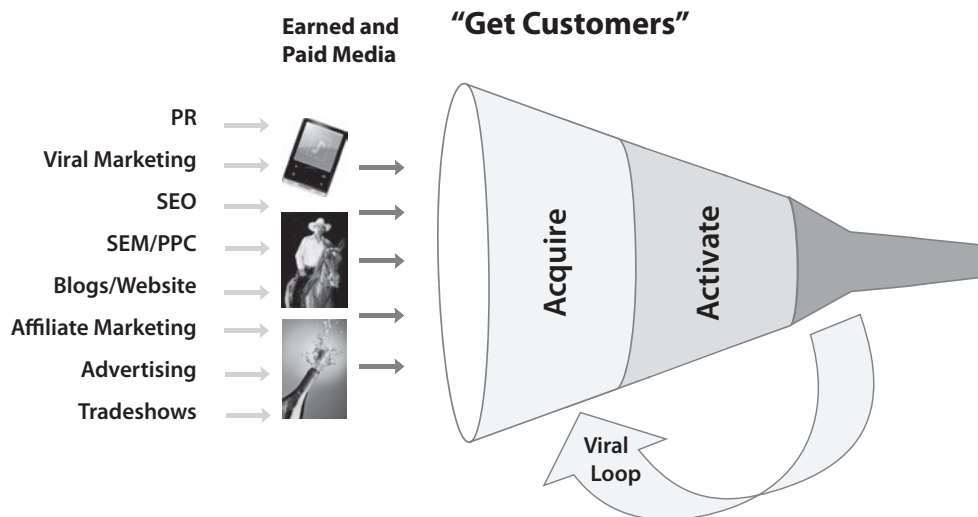
The "Get Customers" Funnel in Physical Channels (Figure 10.2)

Funnel Step	Clicks	Cost Per	Spend Total	Revenue
Acquisitions	200	$ 5.00	$1,000.00	
Activations	40	$25.00		(none yet)
Buy once	20	$25.00		$ 800.00
Valued Customers	10	$50.00		$1,000.00
TOTAL			$1,000.00	$1,800.00

Example of Optimization Tactics Chart (Table 10.2)
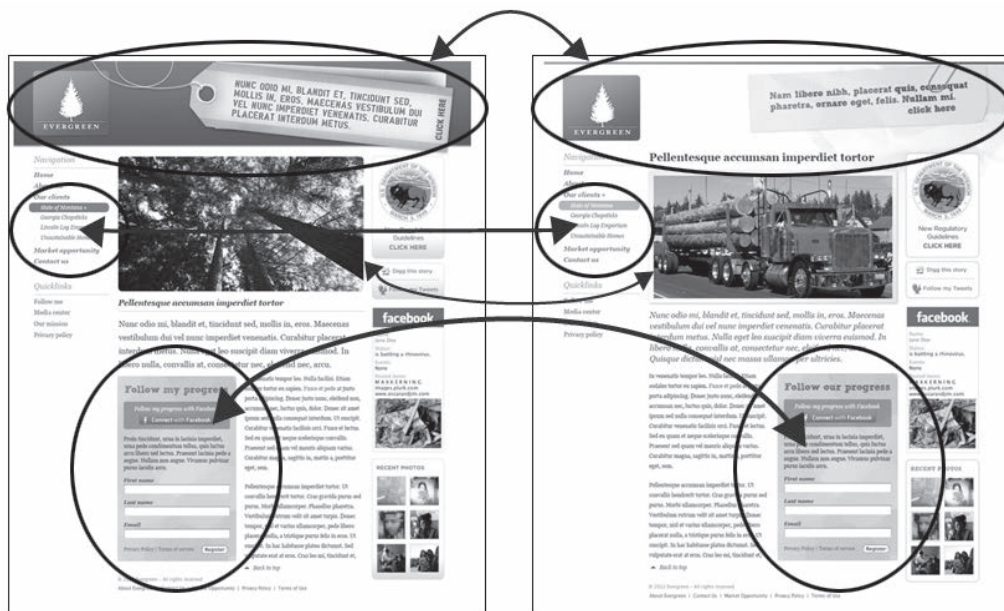
Sample A/B Tests Compare Changing Home Page Results *(Figure 10.3)*
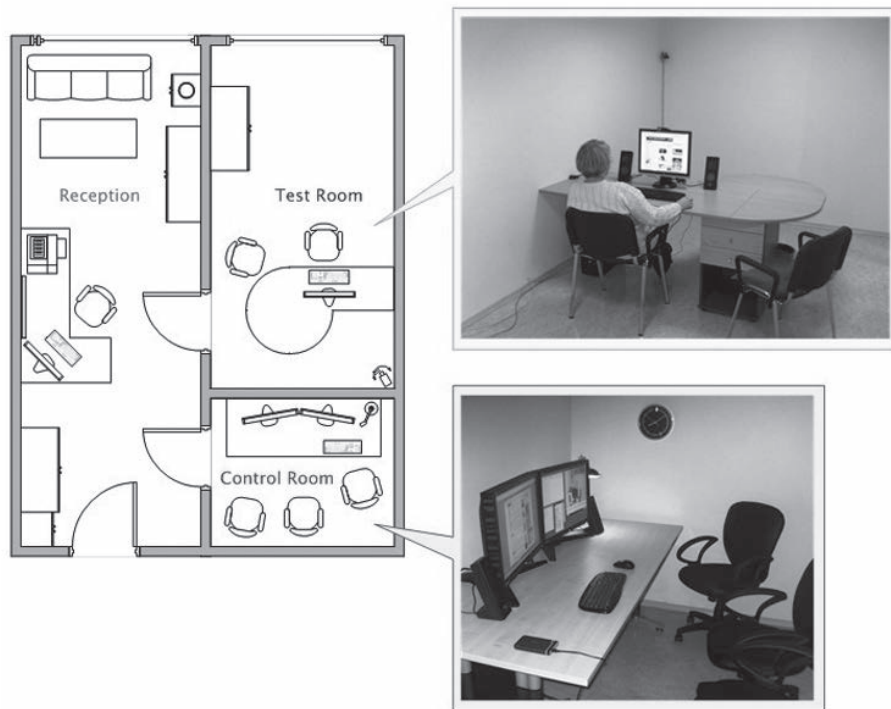
Usability Tests happen in Starbucks or test facilities *(Figure 10.4)*
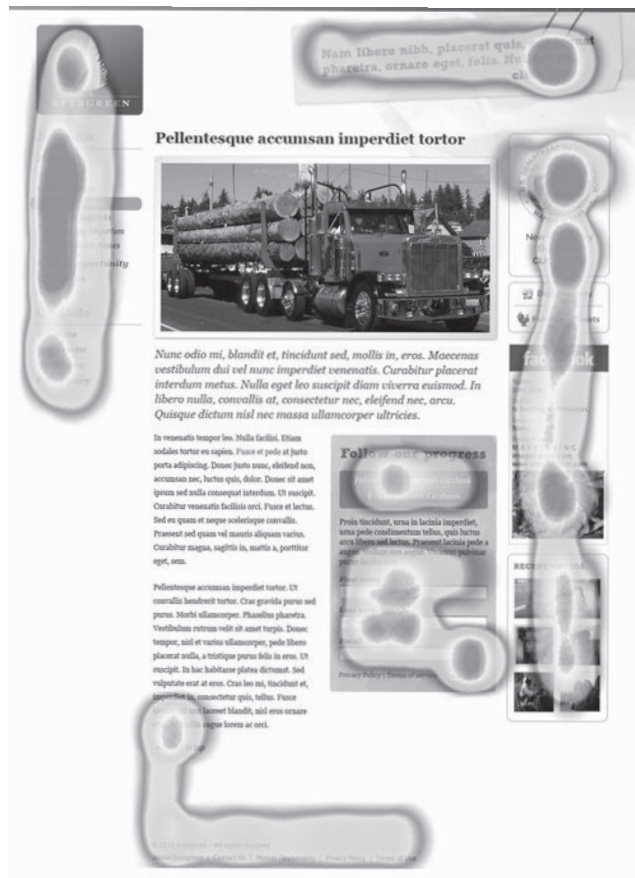
Example of Heat Mapping *(Figure 10.5)*

Example of Eye Tracking (Figure 10.6)

Earned and Paid Media

"Get Customers"

"Grow Customers"

Acquire

Activate

Product Updates

Outreach Programs

"Keep Customers"

Up-Sell

Next-Sell

Cross-Sell

Referrals

Contests, events

Blogs, RSS, e-mails

Loyalty Programs

Viral Loop

Viral Loop

The "Get Customers" Funnel in Web/Mobile Channels (Figure 10.7)

Dave Jones — CEO

Ben White — VP Sales
Karen Rogers — CFO
Roger Smith — CIO

Potential earlyvangelist

Joe Black — Dir. Sales Operations
Neil Garrett — Controller
Suzanne Kellog — VP Financial Ops
Phil Whitry — Director IT

Leslie Elders — Financial Modeling
Influence
Influence
Geoff Smith — Financial Tools Development

- Assume we are selling a new financial tool to finance
- We've found our visionary in the VP of Financial

☐ in house competition   ☐ issues to be addressed before a sale

Typical Influence Map in a Company Organized by Function (Figure 10.8)

	Operational	Technical
High	Executive	CIO or Division IT Executive
Low	End Users	Corp. IT Staff or Division IT Staff

Core Strategy (Figure 10.9)

Access | **Access Needs** | **Strategy** | **Education & Present Solution** | **Sell, Sell, Sell, Sell...**

Finance
Product Management
Sales
Corporate Marketing
Support
IT

Intro Meetings → Account Strategy

High
Low

Functional
Technical

Execs
End Users

CIO
Corp IT Staff

Dir Div IT
Div

Implement Plan → Proposal
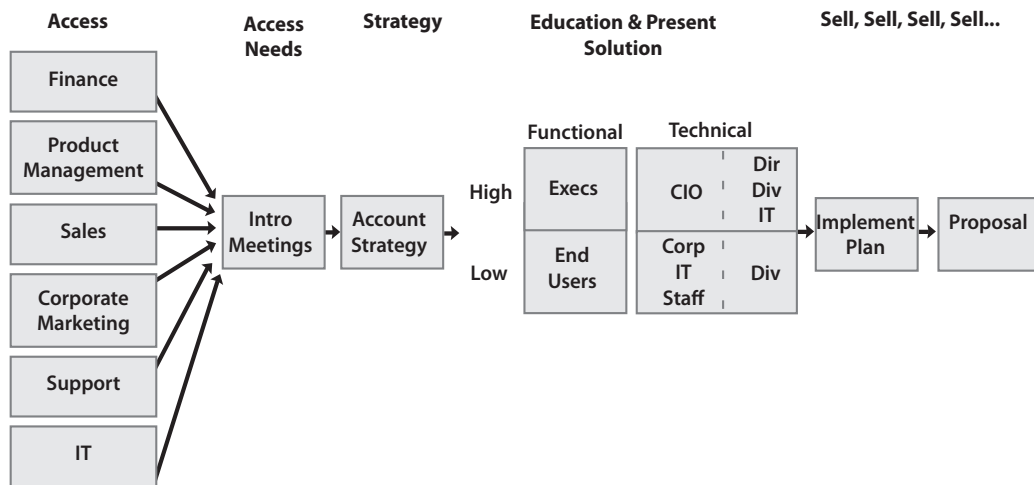
Example of an Access Strategy Map (Figure 10.10)

Sales Success Path

1. Get Prepared
• Hoovers, One Source, Web
• E. Contacts

2. Initial Meeting
• Ask tough questions
• Do Buy-In Demo (not full demo)
• Determine SI Partner

3. Qualification

4. Understand Existing Situation
a) Technology
b) Organization
c) Competition

5. Customized Sales Presentation
• Prepare!
• Get NDA signed
• Introduce SI Partner

6. Win Over IT
• Tech deep dive

7. Define Problem
• Develop Action Plan

8. ROI Presentation
• Prove the Value!

9. Executive Session
• Set expectations for this meeting early on.

10. Solution Session
• By SI Partner
• Detailed Tech discovery

11a. Formal Pricing Proposal
• Don't let it be a surprise!
• Insure SI partner is ready with pricing too.

11b. Negotiations
• Sales
• Finance
• Support

12. Close!

Example of a Sales Roadmap (Figure 10.11)
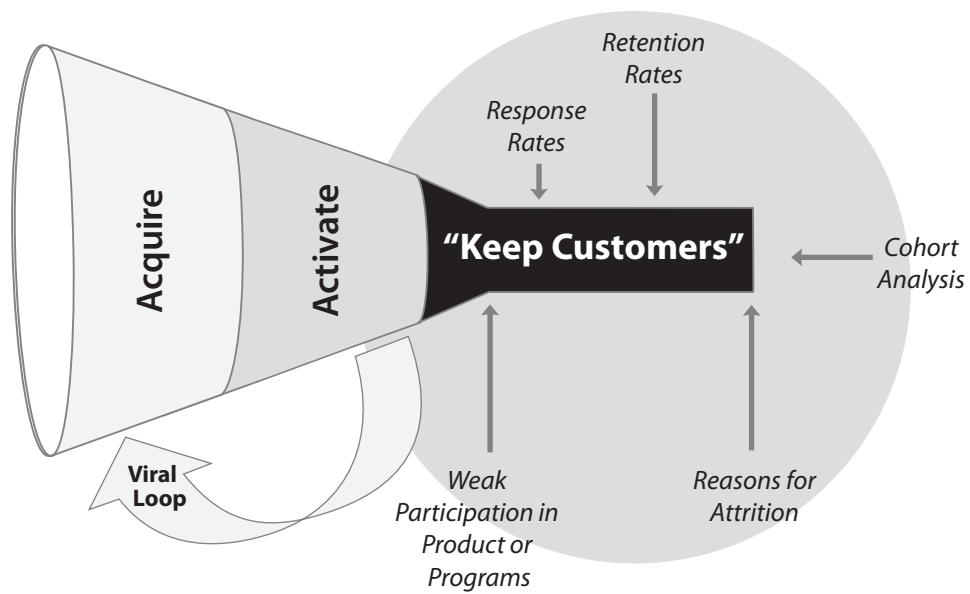
The "Keep Customers" Funnel in Web/Mobile Channels *(Figure 10.12)*
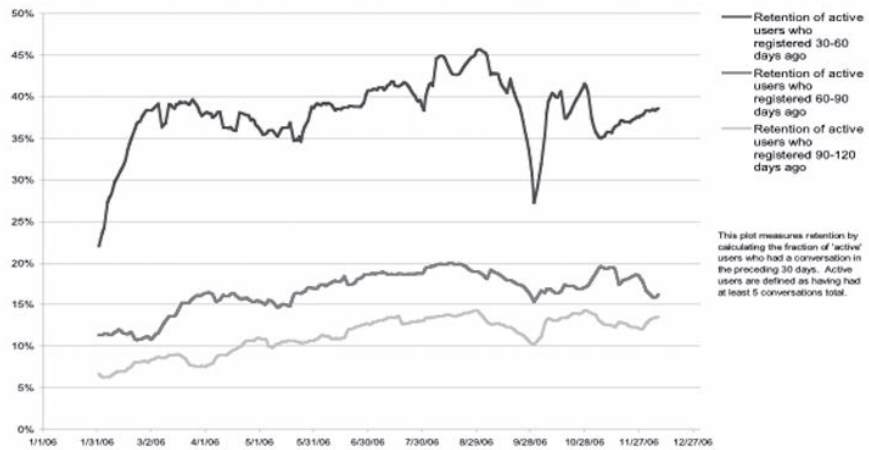
Cohort Analysis of a Sales Funnel (Figure 10.13)
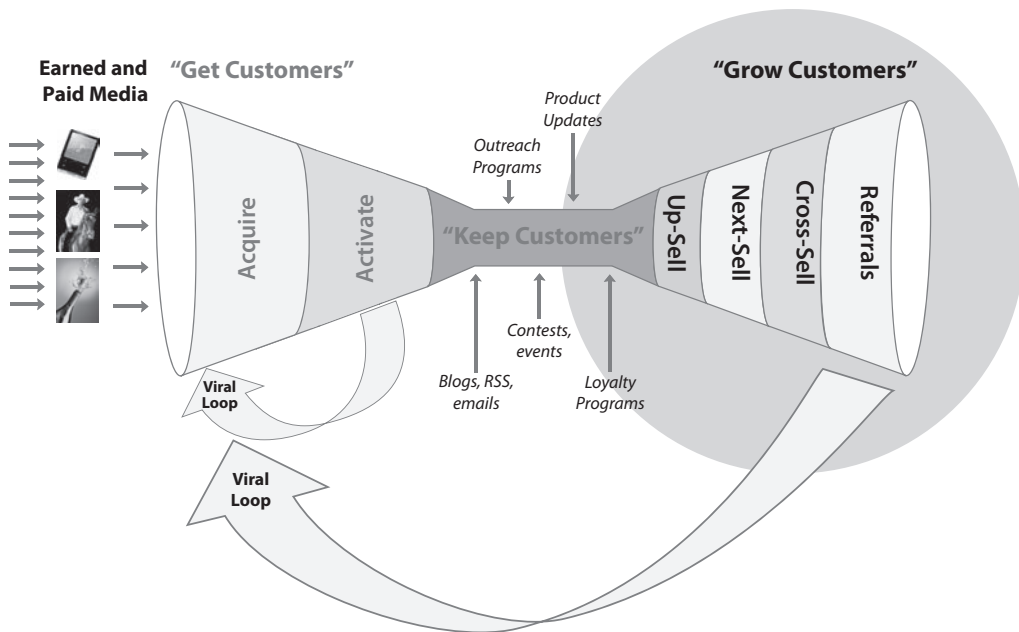
"Grow Customers" Activation Activities in Web/Mobile Channels (Figure 10.14)

Diagram 10

| Product Positioning | → | Match Positioning To Market Type | → | Company Positioning | → | Validate Positioning | All Channels |

External Audit Questionnaire

Recognition
- ❏ Have you heard of the company? Do you know what they do?

Market Focus
- ❏ Are there other products in the market similar to the company's?
- ❏ If so, how are the company's products different?
- ❏ Which do you like the best? Why?
- ❏ If not, how would you describe the space the company is in?

Customer Focus
- ❏ Are you familiar with the types of customers the company is calling on?
- ❏ Are you familiar with the kinds of problems these customers have?
- ❏ Do you believe company's product will solve these problems? How?

Product Focus
- ❏ Do you know what the top three features of the company's product are?
- ❏ Are these "must have" features?
- ❏ What features must the company get to market in the next release? The next release?
- ❏ What do you think of the company's core technology? Is it unique? Defensible? How does it compare to others coming into the market?

Positioning
- ❏ Have you heard the company describe its positioning? Do you believe it? Is it credible?
- ❏ Have you heard the company describe its mission? Do you believe it?

Competition
- ❏ Who do you think the company will compete with in its first year?
- ❏ Who do you think are the company's ultimate competitors?
- ❏ What does the company need to do to win against these competitors?

Sales/Distribution
- ❏ Is the company's distribution strategy the right way to reach customers?
- ❏ Is the company's sales strategy effective?
- ❏ Does the company have the right pricing? Is it charging too much? Too little?

Strengths/ Weaknesses
- ❏ What are the strengths of the company? (Product, distribution, positioning, partners, etc.)
- ❏ What are its weaknesses? (Lack of "whole product," sales, product features, etc.)

Trends
- ❏ What technology/product trends should the company worry about?
- ❏ Who are the key opinion leaders in this technology? Who do you respect?
- ❏ What business trends should the company worry about?
- ❏ Who are the key opinion leaders in these business trends? Who do you respect?

Acquisition Information
- ❏ What do they think is the best way for the company to get product information to its customers? What do you think influences customers' opinions?
- ❏ What is the best way for the company to get you to be interested in its products? Can the company call you?

Example of an External Audit Questionnaire (Figure 11.1)

	PRODUCT POSITIONING STATEMENT EXAMPLE
•	*Mobiledough* is **FOR** busy executives who travel a lot
•	**WHO WANT/NEED** to do expense reports accurately in the least possible time
•	And Mobiledough **IS AN** easy-to-use tool for receipt tracking and expense tabulation
•	**THAT PROVIDES** a detailed weekly expense report in under 10 minutes
•	**UNLIKE** expense report packages, Mobiledough scans, sorts and totals receipts and presents a near-final report draft for review in 11 popular expense reporting formats

Example of Product Positioning (Figure 11.2)

	Existing Market	New Market	Resegmented Market	Clone Market
Company Positioning Statements	Compare the product to its competitors. Describe how some feature or attribute of the product is better, faster – *an incremental improvement.*	It's too early for customers to under-stand what the product's features will do for them. Instead, describe the problem the product will solve and the benefits the customers will get from solving it – *a transformational improvement.*	Compare the product to its competitors. If it's low cost, describe price and feature set. If a niche, describe how some feature or attribute of the product solves the problem customers have in a way comparable products do not. Describe the benefits the customers will get from solving their problem this new way.	If users are familiar with foreign sites, compare to them. If not, treat as a new market.

Product Positioning by Market Type (Table 11.1)

	Existing Market	New Market	Resegmented Market	Clone Market
Company Positioning Statements	Compare the company to its competitors. Describe how the company is both different and credible.	It's too early for customers to understand how different the company is, since in a new market there are no other companies to compare it to. Therefore, company positioning is about communicating its vision and passion for what could be.	Company positioning for this Market Type communicates the value of the market segment chosen and the innovation the new company brings to it. What do customers value, want and need now?	Borrow positioning from existing country. Translate into local needs.

Company Positioning by Market Type (Table 11.2)

Diagram 11

Assemble Data → Validate Business Model → Validate Financial Model → *Re*-Validate Business Model → Pivot or Proceed?   All Channels
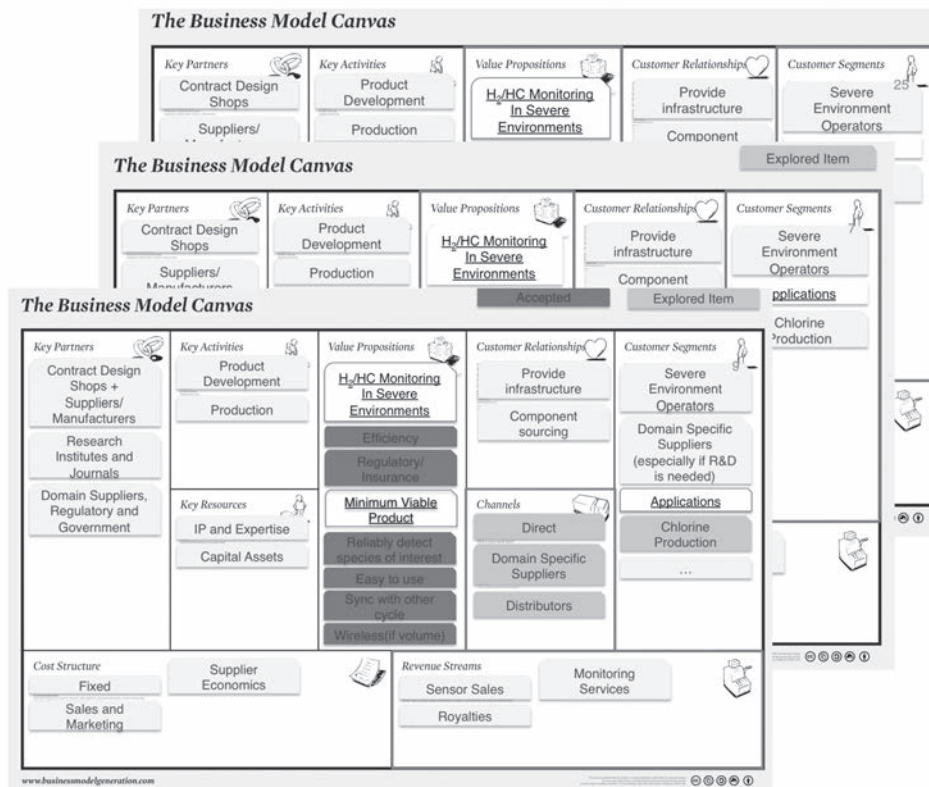
Review Business Model Hypotheses *(Figure 12.1)*

Business Model Checklist

√ *Value Proposition:*
  - Are customers passionate about long-term product vision? Cannot be translated to be quantified revenue projections?
  - Do the product features and benefits still make sense? Can they be built within the development budget and timetable?
  - Did Customer Validation interviews validate the Value Proposition components?

√ *Customer Segments:*
  - Are the Customer Segments tested and proven can they map?
  - Are customer needs active or urgent? Can they drive forecasted revenues?
  - Does the product improve a "day in the life"?
  - Does the company understand the customer purchase influences and associated costs?

√ *Value Proposition 2: Market Type*
  - Did customer feedback confirm the Market Type hypothesis?
  - Are the cost impacts of the Market Type selection factored in where appropriate?
  - Is the team confident its Market Type selection will deliver the forecasted customers?

√ *Channels:*
  - Does the company fully understand the food chain, its responsibilities and costs?
  - Does the team have confidence in its channel revenue forecasts roadmap?
  - Are there any important indirect channel costs such as sales reps or promotional fees?
  - Are the channel partners willing to buy?

√ *Customer Relationships:*
  - Are "get" plan elements aligned with schedules?
  - Are the test plans for Get/Keep/Grow complete with schedules and budgets?
  - Are "get" customers costs affordable?
  - If a multi-sided markets, have the "get" costs been computed for both sets of customers?

√ *Cost Structure:*
  - Are all the core company operating and overhead costs (payroll, benefits, rent, legal, overhead) clearly identified?
  - Are all the product development and manufacturing costs calculated?
  - What "corporate" costs (legal, accounting, pr, taxes) are forecast?

√ *Revenue Stream:*
  - Has the company sized its market opportunity?
  - Has the pricing model volume, demand, purchase frequency and other revenue variables been confirmed?
  - Does the forecast indicate an increasingly scalable, increasingly profitable business?
  - Has the team considered the revenue impact of competitive response to the product?

Business Model Checklist (Figure 12.2)

EZ Gardner (Physical Channel) MARKET TYPE: Resegmenting Existing Market/Niche						
Category	q1	q2	q3	q4	TOTAL	YEAR TWO
1 total number units sold	15,000	18,000	27,000	48,000	108,000	180,000
2 average retail selling price	30	30	30	30		**25**
3 GROSS SALES: chain/ garden/distributors	450,000	540,000	810,000	1,440,000	3,240,000	**4,500,000**
4 (less) channel discount (40%)	-180,000	-216,000	-324,000	-576,000	-1,296,000	-1,800,000
5 (less) other channel costs	-90,000	-90,000	-120,000	-150,000	-450,000	-300,000
6 **NET COMPANY REVENUE STREAM**	180,000	234,000	366,000	714,000	1,494,000	2,400,000
7 (less) sales costs: reps, tradeshows	-120,000	-120,000	-150,000	-180,000	-570,000	-600,000
8 (less) product costs (COGS)	-52,000	-63,000	-94,500	-168,000	-378,000	-540,000
9 (less) current operating costs	-120,000	-120,000	-120,000	-180,000	-540,000	-720,000
10 **CASH BURN for period**	**-112,000**	**-69,000**	**1,500**	**186,000**	**6,500**	**540,000**
11 cash remaining/ end of quarter	388,000	319,000	330,500	516,500	516,500	1,056,500

"Metrics That Matter": Physical Channel Model (Table 12.1)

Note: the leftmost numbers refer to commentary in descriptive text that follows.

	Category	q1	q2	q3	q4	TOTAL	YEAR TWO
	Expense Reporter (Web/Mobile) **MARKET TYPE:** Resegmenting Existing Market/Niche						
1	DIRECT unit sales (web)	4,000	5,000	6,000	8,000	23,000	28,750
2	gross direct revenue (@ $30 each)	120,000	150,000	180,000	240,000	690,000	862,500
3	(less) customer acquisition cost $6	-24,000	-30,000	-36,000	-48,000	-138,000	-172,500
4	NET Web Revenue Total	96,000	120,000	144,000	192,000	552,000	690,000
5	DIRECT sales/ mobile (units)	2,000	2,500	3,000	3,500	11,000	13,000
6	gross revenue mobile unit sales	60,000	75,000	90,000	105,000	330,000	390,000
7	(less) referral incentive @ $4 each	-8,000	-10,000	-12,000	-14,000	-44,000	-52,000
8	NET direct mobile revenue total	52,000	65,000	78,000	91,000	286,000	338,000
9	CHANNEL appstore sales (units)	8,000	12,000	16,000	24,000	60,000	90,000
10	gross revenue (@ $30 each)	240,000	360,000	480,000	720,000	1,800,000	2,700,000
11	(less) market/ appstore 30% fee $9	-72,000	-108,000	-144,000	-216,000	-540,000	-810,000
12	Total NET APPSTORE revenue	168,000	252,000	336,000	504,000	1,260,000	1,890,000
13	TOTAL revenue all channels	316,000	437,000	558,000	787,000	2,098,000	2,918,000
14	(less) product/ prod dev costs	-400,000	-300,000	-200,000	-150,000	-1,050,000	-480,000
15	(less) current operating costs	-150,000	-150,000	-150,000	-150,000	-600,000	-720,000
16	**CASH BURN for period**	-234,000	-13,000	208,000	487,000	448,000	1,718,000
17	cash remaining/ end of quarter	64,000	51,000*	259,000	746,000	746,000	2,464,000

*dangerously low!

"Metrics That Matter": Web/Mobile Sales Model (Table 12.2)

Note: the leftmost numbers refer to commentary in descriptive text that follows.

Expense Reporter (Web/Mobile) MARKET TYPE: Resegmenting Existing Market/Niche						
Category	q1	q2	q3	q4	TOTAL	YEAR TWO
1 New activated users	300,000	400,000	600,000	750,000	2,050,000	3,000,000
2 New user acquisition cost @ $3 each*	900,000	1,200,000	1,800,000	2,250,000	6,150,000	6,000,000
3 Total active users**	300,000	700,000	1,300,000	2,050,000	2,050,000	5,000,000
4 Average page views /user/quarter	60	66	72	80		100
5 TOTAL PAGE VIEWS per quarter	18 million	46 million	93 million	164 million	321.8 million	500 million
6 (less) page view attrition @ <+/- 7%/quarter	n/a	-3,260,000	-6,420,000	-12.3 million	-22,780,000	-60,000,000
7 **TOTAL CPM's (000's of pages) to sell**	**18,000**	**42,740**	**86,580**	**151,700**	**299,020**	**440,000**
8 Average $2.50 CPM x4 ads per page	10	20	24	30		36
9 **TOTAL advertising revenue**	**180,000**	**854,700**	**2,077,920**	**4,551,000**	**7,663,620**	**15,840,000**
10 email list rental revenue	0	14,000	78,000	164,000	256,000	2,000,000
11 **TOTAL revenue**	**180,000**	**868,700**	**2,155,920**	**4,715,000**	**7,919,620**	**17,840,000**
12 (less) user acquisition cost	-900,000	-1,200,000	-1,800,000	-2,250,000	-6,150,000	-6,000,000
13 (less) product /prod dev costs	-2,000,000	-1,500,000	-1,20,0000	-600,000	-5,300,000	-3,600,000
14 (less) current operating costs	-1,200,000	-1,200,000	-1,200,000	-1,500,000	-5,100,000	-6,000,000
15 **CASH BURN for period**	**-3,920,000**	**-3,031,300**	**-2,044,080**	**365,000**	**-8,630,380**	**2,240,000**
16 cash remaining /end of quarter	6,080,000	3,048,700	1,004,620	1,369,620	1,369,620	**$3,609,620!**
*acquisition cost declines $1.00 in year two ** some users have departed						

"Metrics That Matter": Multi-sided/Ad-Supported Model (Table 12.3)

Note: the leftmost numbers refer to commentary in descriptive text that follows.

New Market
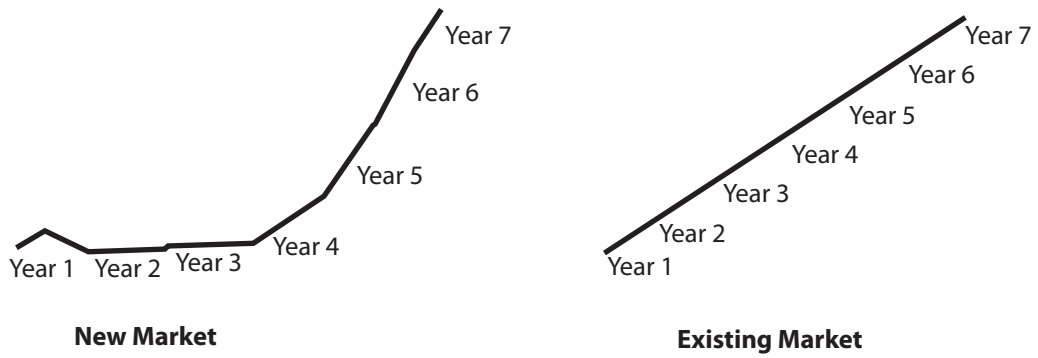
Existing Market

Revenue Growth in New and Existing Markets (Figure 12.3)
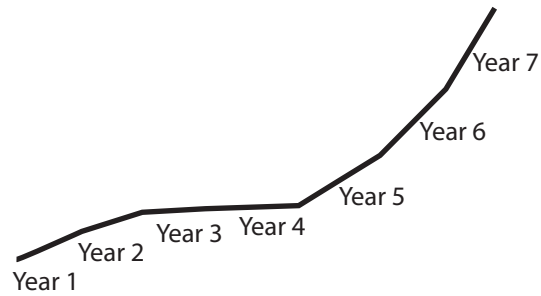
Revenue Growth in a Resegmented Market (Figure 12.4)

The Startup Owner's Manual "Site" Map

STEP ONE: Customer Discovery

STEP TWO: Customer Validation

Appendix A

Checklists

Use these checklists at the completion of each step. They'll help assure that you've completed each of the tasks outlined in each section. Adjust the "to do" lists and tasks as appropriate to your startup's type, goals, and situation.

Board And Management Buy-In All Channels

Goal: Agreement among investors, founders, and team on commitment to the Customer Development process.

Reference: Chapter 2, Manifesto Rule #14

☐ Commit to use of Business Model and Market Type.

☐ Understand the difference between "search" for a business model and "execute" a business plan

☐ Learn differences between Product Development and Customer Development

☐ Discuss number of "funded Pivots" available and how board and team will measure company progress

Customer Development process emphasizes learning and discovery

☐ Is there board and founding team buy-in for this process?

☐ Is there is enough funding for 2 to 3 Pivots in Discovery and Validation?

Discuss Market Type (initial decision)

☐ Existing, Resegmented, New or Clone?

☐ First pass with board on initial agreement of Market Type

☐ First pass with board on different funding needs by Market Type

Agree on Customer Development Time Frame

☐ Approximate time for Discovery and Validation

☐ Discovery exit criteria determined

☐ Validation exit criteria determined

Exit Criteria:

☐ Buy-in of the team and board for Customer Development process

☐ Market Type and exit criteria for each step

Checklist 1

The Customer Development Team All Channels

Goal: Set up the Customer Development Team.

Reference: Chapter 2, Manifesto Rule #1

Review the organizational differences between Customer Development and the traditional product introduction process
- ☐ Founders spend time outside the building
- ☐ No VP of Sales or Marketing
- ☐ Initial team responsibilities

Team Setup and Goals
- ☐ Agree on who leads the team
- ☐ Agree on the "getting out of the building" methodology
- ☐ Agree on % of customer feedback online versus eyeball
- ☐ Agree on the team roles for each of the four Customer Development Steps

Enumerate 3 to 5 Core Values of the Founding Team
- ☐ Not a mission statement
- ☐ Not about profit or products
- ☐ Core ideology is about what the company believes in

Exit Criteria:
- ☐ Buy-in of the team and board for a customer development team
- ☐ Are the right people in those jobs?

Checklist 2

Market Size

Goal: Estimate the total market opportunity for the company

Reference: Chapter 4, Market Size Hypothesis

Estimated market size:
- ☐ TAM or Total Available Market
- ☐ SAM or Served Available Market
- ☐ Target Market

Estimate current product and follow-on products
- ☐ Appropriate metric for measuring determined
  - ☐ Units/dollars/page views/other measures?
  - ☐ Per member for subscription services/per page view for advertising-supported businesses?
- ☐ Research conducted to "size" the overall market
  - ☐ Read industry analyst reports, market research reports, competitors' press releases, etc.
  - ☐ Talk with investors and customers
- ☐ If assessing an existing or resegmented market, adjacent markets that customers might switch from are considered
  - ☐ Will the startup's product encourage switching?
  - ☐ Only the switchable subset counted (Beware of long-term lock-ins from incumbents)
  - ☐ Growth computed for all customer sources over 3-5 years
- ☐ If assessing a new market, the opportunities are estimated based on proxies and adjacent markets
  - ☐ Are there comparable companies?
  - ☐ Have others grown as fast as the estimate?
  - ☐ Why will this company perform similarly?

Exit criteria:
- ☐ Written sense of market size, estimate of how much the company can capture
- ☐ **Pass/Fail tests identified** Checklist 3

Product Vision

Goal: Team agreement on the long-term vision and 18-month schedule

Reference: Chapter 4, Value Proposition Hypotheses/Product Vision

Vision
- ☐ What's your long-term vision for your company?
- ☐ What do you ultimately want to change or solve?
- ☐ Are you going to do it with a series of products?
- ☐ How do you expand into adjacent markets?
- ☐ Do you need to get people to change their behavior?
- ☐ What will the world look like 3 years after you arrive on the scene? Five years?

☐ **Put together a short narrative in bullets about your strategy**

Delivery Dates
- ☐ MVP Delivery Date and features
- ☐ 18-month product vision and delivery dates

Long Term Product Strategy
- ☐ Will your product create network effects?
- ☐ Can you price it with a predicable model?
- ☐ Can you create customer lock-in/high switching costs?
- ☐ Can you have high gross margins?
- ☐ Does it have organic demand versus requiring marketing spend?
- ☐ List product enhancements anticipated up to 18 months
- ☐ List key follow-on product enhancements

Exit criteria:
- ☐ Vision
- ☐ Narrative
- ☐ Long-term product strategy
- ☐ Update your business model canvas

☐ **Pass/Fail tests identified**   Checklist 4

Product Features And Benefits All Channels

Goal: Explain what the product is and why people will buy and use it

Reference: Chapter 4, Product Features/Benefits Hypothesis and **Low-Fidelity MVP Hypothesis**

What problem or need are you solving?

- ☐ What do you think the biggest *pain* is in how customers work/play?
- ☐ If they could wave a magic wand and change anything what would it be?
- ☐ How does the product solve those problems or needs?
- ☐ What do people do today to solve their problem?

Product Feature List

- ☐ 10 one- or two-sentence descriptions of product features
- ☐ Explain the general goal of the product
- ☐ Does it address a market niche or segment?
- ☐ Does it solve a problem or address a need in a new, different, faster or cheaper way?

Product Benefits List

- ☐ List the benefits through the customer's eyes
- ☐ Something new? Better? More? Faster? Cheaper? Etc.
- ☐ Underneath the features above, summarize benefits for each
- ☐ Will these Benefits be accepted as such or do they need explanation?

Describe the Minimum Viable Product (MVP)

- ☐ What do you want to learn?
- ☐ From who?
- ☐ What is the smallest feature set?

Create a One-Page User Story

- ☐ Include product vision, features, benefits

Exit criteria:

- ☐ Describe the product's features and benefits
- ☐ Describe the MVP
- ☐ Create a User Story describing what job the product will do
- ☐ Update your business model canvas

☐ **Pass/Fail tests identified**

Checklist 5

Customer Segments All Channels

Goal: Develop a hypothesis of who your customers are and what problems they have that will drive them to use your product
Reference: Chapter 4, Customer Segments and **Source Hypotheses**

Define the Customer Problem
- ☐ Does the customer have a latent, passive, active or vision problem/need?

Define the Customer type
- ☐ Define the distinctly different types of "customer"
- ☐ Who will be the actual day-to-day users of the product?
- ☐ Who are the influencers and recommenders?
- ☐ Who is the "Economic Buyer"? (i.e. whose budget will pay for it?)
- ☐ Do you think the Economic Buyer has an existing budget for this product or do they need to get one approved?
- ☐ Who are the "Decision Makers?"
- ☐ Who else needs to approve the purchase? And who can kill it?

What are the Customer's wants and needs?
- ☐ Rated on a "problem recognition scale"
- ☐ Does product solve a mission-critical company problem or satisfy a must-have customer need?
- ☐ How painful is this problem?

- ☐ **Draw the Customer Archetypes**
- ☐ **Draw the Day in the life of a customer – before and after your product**

Draw the Organizational and customer influence maps
- ☐ List those who could influence a customer's buying decision
- ☐ Consider the product's influence on his daily life

Exit criteria:
- ☐ Customer types and problem or need
- ☐ Customer archetypes
- ☐ Depict a day in the life of a customer
- ☐ Organizational and customer influence maps
- ☐ Update your business model canvas

☐ **Pass/Fail tests identified**

Checklist 6

Channels

Goal: Develop a hypothesis of your distribution channel

Reference: Chapter 4, Physical and **Web/Mobile** Channel Hypotheses

☐ **What channel will your users use to buy from you?**

Draw the Distribution Channel Diagram
    ☐ How much will the channel cost (direct expenses or channel discounts)
    ☐ Are there indirect channel costs (presales support, promotional dollars…)
    ☐ What else is needed for customers to use/buy the product?
    ☐ How do they acquire those pieces?
    ☐ What is the net revenue after channel costs?

Is this a Multi-sided Market?
    ☐ How will you address each side of the market?

Exit criteria:
    ☐ Distribution channel selected
    ☐ Update your business model canvas

☐ **Pass/Fail tests identified**

Checklist 7

Market Type

Goal: Select an initial Market Type

Reference: Chapter 4, Market Type

☐ **Do you have a new product in an existing market?**
☐ **Do you want to clone an existing market?**
☐ **Do you need to redefine/reframe a market?**

☐ **Or do you want to create an entirely new market?**
    ☐ Is your product/service a substitute for something customers already have?
    ☐ Is it a replacement?
    ☐ Is it a variant on something already out there, but can be "respun" into something new?
    ☐ Is it something totally new?

Positioning in An Existing Market
    ☐ Define the basis of competition
    ☐ Who is driving the existing market?
    ☐ Do you have some advantage or appeal among any vertical or horizontal market segment?

Positioning in An Existing Market you Want to Resegment
    ☐ Define the basis of how you want to change the market
    ☐ Who is driving the existing market you want to resegment?

Positioning in a New Market
    ☐ How will you create the market
    ☐ Estimate of market creation costs

Exit criteria:
    ☐ A preliminary first hypothesis of the type of market
    ☐ Update your business model canvas

☐ **Pass/Fail tests identified**

Checklist 8

Customer Relationships

Physical

Goal: How you will "Get, Keep and Grow Customers" in a physical channel

Reference: Chapter 4, Customer Relationships

☐ **Draw Your "Get/Keep/Grow" Funnel**

☐ **Describe your "Get Customers" Strategy**
    ☐ Awareness
    ☐ Interest
    ☐ Consideration
    ☐ Purchase
☐ **What are your "Get Customers" Tactics?**
    ☐ Earned Media?
    ☐ Paid Media?
☐ **Describe your "Keep Customers" Strategy**
    ☐ Interact
    ☐ Retain
☐ **What are your "Keep Customers" Tactics?**
    ☐ Loyalty programs?
    ☐ Product updates?
    ☐ Customer Surveys?
☐ **Describe your "Grow Customers" Strategy**
    ☐ New Revenue from existing customers
    ☐ Customer referrals
☐ **What are your "Grow Customers" Tactics?**\Up-sell/Cross-sell/other tactics
    ☐ Referral generation programs to test
Exit criteria:
    ☐ A preliminary first hypothesis of all Get/Keep Grow activities
    ☐ Update your business model canvas

☐ **Pass/Fail tests identified**

Checklist 9 Physical

Customer Relationships   Web/Mobile

Goal: How you'll "Get, Keep and Grow" Customers in a web/mobile channel

Reference: Chapter 4, Customer Relationships

☐ **Draw Your "Get/Keep/Grow" Funnel**

☐ **Describe your "Get Customers" Strategy**
  - ☐ Acquire
  - ☐ Activate

☐ **What are your "Get Customers" Tactics?**
  - ☐ Search (SEM/SEO)
  - ☐ Viral
  - ☐ PR
  - ☐ Trials

☐ **Describe your "Keep Customers" Strategy**
  - ☐ Interact
  - ☐ Retain

☐ **What are your "Keep Customers" Tactics?**
  - ☐ Customization?
  - ☐ User groups? Blogs?
  - ☐ Loyalty or other physical channel programs

☐ **Describe your "Grow Customers" Strategy**
  - ☐ Incremental customer revenue
  - ☐ Referrals

☐ **What are your "Grow Customers" Tactics?**
  - ☐ Upgrades
  - ☐ Contests
  - ☐ Up-sell/Cross-sell
  - ☐ Viral

Exit criteria:
- [ ] A preliminary first hypothesis of all Get/Keep Grow activities
- [ ] Update your business model canvas

- [ ] **Pass/Fail tests identified**

Checklist 9 Web/Mobile

Key Resources Hypothesis   All Channels

Goal: Identify external resources critical to the company's success, and how the company will find and secure them

Reference: Chapter 4, Key Resources

Describe all the key resources costs, and how they will be acquired
- ☐ Physical resources
- ☐ Financial resources
- ☐ Human resources
- ☐ Intellectual property
- ☐ Other key resources
- ☐ Dependency analysis

Exit criteria:
- ☐ Physical, financial, human, intellectual property resources required
- ☐ What they will cost
- ☐ Where they'll be found
- ☐ How they will be secured
- ☐ Update your business model canvas

☐ **Pass/Fail tests identified**

Checklist 10

Partners Hypothesis All Channels

Goal: Identify essential partners and the company's "value exchange" with each

Reference: Chapter 4, Partners and **Traffic Partners**

Understand Potential Partner Types
- ☐ Strategic Alliances
- ☐ Joint new business efforts
- ☐ Coopetition
- ☐ Key suppliers
- ☐ **Traffic Partners**

List your target partners
- ☐ Necessary partners
- ☐ What they will provide
- ☐ How the Company will reciprocate

Exit criteria:
- ☐ Understand potential partner types
- ☐ List target partners, their contributions and what the company will offer in return
- ☐ Update your business model canvas

☐ **Pass/Fail tests identified**

Checklist 11

Revenue And Pricing Hypothesis All Channels

Goal: See if the business model makes financial sense

Reference: Chapter 4, Revenue and Pricing Hypothesis

How many will we sell?
- ☐ Market Size & Market share hypotheses
- ☐ Channel hypothesis

What's the Revenue Model
- ☐ Sales?
- ☐ Subscriptions?
- ☐ Pay-per-use?
- ☐ Referral?
- ☐ Affiliate?

What Are the Pricing Tactics
- ☐ Value pricing
- ☐ Competitive pricing
- ☐ Volume pricing
- ☐ Portfolio pricing
- ☐ Razor/razor blade model
- ☐ Subscription
- ☐ Leasing
- ☐ Freemium
- ☐ Etc.
- ☐ Does it Add up to a Business Worth Doing?

Exit criteria:
- ☐ The units/users, revenue model and pricing add up to a business worth doing

☐ **Pass/Fail tests identified**

Checklist 12

Design Tests All Channels

Goal: Devise experiments for testing the Business Model Hypotheses

Reference: Chapter 5, Design Tests and Pass/Fail Experiments

- ☐ List key areas to learn
- ☐ Design simplest pass/fail tests
- ☐ Run Tests
- ☐ Process for tracking learning and insights from test results

Exit criteria:
- ☐ Objective pass/fail tests for testing Business Model Hypotheses
- ☐ Process for tracking results

☐   **Pass/Fail tests identified**

Checklist 13

Prepare For Customer Contacts   Physical

Goal: Get meetings scheduled with potential customers to understand the customer problem and whether the company's proposed solution solves it

Reference: Chapter 5, Prepare for Customer Contacts

- ☐ List of 50 initial target customers
- ☐ Develop a Reference story
- ☐ Craft an Introductory email
- ☐ Contact initiated
- ☐ Build a master calendar of booked appointments
- ☐ Expand the list of contacts
- ☐ Create the innovators' list
- ☐ Create the initial list of advisory board candidates

Exit criteria:
- ☐ Meetings arranged targeted number of potential customers

☐   **Pass/Fail tests identified**

Checklist 14 Physical

Build A Low Fidelity MVP   Web/Mobile

Goal: Develop a low fidelity MVP to test and assure problem customers care about the problem

Reference: Chapter 5, Build Your Low Fidelity MVP

Build a low fidelity website
- ☐ Splash or landing page with value proposition
- ☐ Benefits summary
- ☐ Call to action (learn more, survey, preorder)
- ☐ Multiple MVPs considered?

Exit Criteria:
- ☐ A simple live website or prototype for testing whether customers care about the app or site being developed

☐ **Pass/Fail tests identified**

Checklist 14 Web/Mobile

Test The Problem And Assess Its Importance   Physical

Goal: Measure seriousness and importance of the customer problem or need as the customer sees it

Reference: Chapter 5, Test Understand the Problem and Assess its Importance

Develop the "Problem" presentation
☐ Perceived Problem
☐ Current Solution
☐ Startup's proposed solution
☐ Top 3 things to learn at each customer call
☐ Two presentations for multi-sided markets
☐ Presentation rehearsed?

Create a Report card for collecting data
☐ Perceived problems, ranked by customer
☐ Cost
☐ Current solution
☐ Startup's solution
☐ Referrals

Create a Scorecard for results

Exit criteria:
☐ Problem presentation developed and rehearsed
☐ Report card for collecting data at each call
☐ Scorecard for results

☐   **Pass/Fail tests identified**

Checklist 15 Physical

Low Fidelity MVP Problem Test   Web/Mobile

Goal: Determine whether enough people care about the problem the startup is solving or need it is fulfilling

Reference: Chapter 5, Low Fidelity MVP Problem Test

☐ **Invite customers to the Low Fidelity MVP**
    ☐ Push tactics
    ☐ Pull tactics
    ☐ Paid tactics

☐ **Collect e-mails for future contact**

☐ **Measure response**
    ☐ Raw web hits
    ☐ Conversion rates
    ☐ Time spent on site
    ☐ Source of users

☐ **In-person interviews in addition to online responses**
☐ **Process for analyzing feedback, determining scalability**

Exit criteria:
    ☐ Robust customer interest in the problem or need
    ☐ High response rate to startup's proposed solution

☐ **Pass/Fail tests identified**

Checklist 15 Web/Mobile

Gain Customer Understanding All Channels

Goal: In-depth understanding of potential customers

Reference: Chapter 5, Customer Discovery, Get Out of the Building to Test the Problem. Do People Care?

☐ **Research and Customer interviews**
    ☐ How customers' money and time are spent
    ☐ Current workflow
    ☐ Pain or need
    ☐ Current solution and cost
    ☐ How workflow would change with startup's product
    ☐ Customer publications
    ☐ Customer influencers

☐ **Spend a day doing what customers do**
☐ **Attend customer events**

☐ **Become a customer**
    ☐ Their websites and publications
    ☐ Online experiences
    ☐ How and where they spend time
    ☐ How and where they discover new ways to spend time

☐ **Report card for recording information learned**
☐ **Process for analyzing data collected**

Exit criteria:
    ☐ In-depth understanding of customers, what they read, who they listen to, how they work, spend leisure time and money

☐ **Pass/Fail tests identified**

Checklist 16

Capture Market Knowledge, Traffic/Competitive   All Channels

Goal: Gain understanding of overall market

Reference: Chapter 5, Capture Market Knowledge and Traffic/Competitive Analysis

Meet with peers in adjacent markets, industry analysts, journalists, other key influencers
- ☐ Industry trends
- ☐ Key unresolved customer needs
- ☐ Key players
- ☐ Must-read/Must-ask/Must-meet
- ☐ Potential competitors/Innovators in the space

☐ **Research!**
- ☐ Trends
- ☐ Key players/Influencers
- ☐ Business models
- ☐ Key metrics
- ☐ Traffic measurement, comparison tools
- ☐ App stores
- ☐ Quora.com

☐ **Construct a Competitive grid**

☐ **Construct a Market map**

☐ **Attend Industry events**
- ☐ Demos
- ☐ Hands-on time with competitive and adjacent products
- ☐ Spot talent, trends

Exit criteria:

☐ In-depth understanding of the overall market, its trends, players, current products and vision for growth

☐ **Pass/Fail tests identified**

Checklist 17

Update The Business Model And Team

Goal: Prepare to assess whether to move ahead or pivot

Reference: Chapters 4,5, 6, Customer Discovery

☐ **Assemble the Customer Data**
    ☐ Build a Workflow map of prototypical customer
    ☐ Customer workflow with and without new product or app

☐ **Detailed findings from customer interviews**
    ☐ Problems customers have
    ☐ Pain level
    ☐ How the problems are being solved
    ☐ What was learned
    ☐ Biggest surprises/Biggest disappointments

☐ **Assessment of data**
    ☐ How well preliminary product specs solve customers' problem
    ☐ Product/market fit
    ☐ Review and prioritize features list
    ☐ Features matched to customer problem
    ☐ Customer interest/enthusiasm quantified

☐ **Review the Phase 1 hypotheses**
    ☐ Update the Business Model Canvas
    ☐ Update the 18-month delivery schedule

☐ **Pivot-or-proceed discussion**

Exit criteria
    ☐ Determine whether the company has uncovered a problem that many customers are eager to solve, or if the Value Proposition works
    ☐ Update the Business Model Canvas

☐ **Pass/Fail tests identified**

Checklist 18

The Product/ "Solution" Presentation   Physical

Goal: Develop a solution presentation for use with customers to confirm the product solves a serious customer problem or fills an important need

Reference: Chapter 6, Create the Product/Solution Presentation

☐ **Develop a Solution-oriented presentation**
    ☐ Review problem
    ☐ Describe product (five key features)
    ☐ Insert multiple prompts for customer feedback
    ☐ No marketing or positioning information

☐ **Draw the Customer workflow diagram**
    ☐ Before the product
    ☐ After the product
    ☐ Product future 18 months out

☐ **Develop a Demo or Prototype where possible**
☐ **Keep a Scorecard to track customers' reaction**

Exit criteria:
☐ Detailed presentation that sets out the customer program,
    shows the startup's solution and invites additional customer feedback

☐ **Pass/Fail tests identified**

Checklist 19 Physical

High Fidelity MVP Test   Web/Mobile

Goal: Identify a test that gauges the intensity of customers' enthusiasm for the product

Reference: Chapter 6, High Fidelity MVP Test

- [ ] **Run the High Fidelity "Solution" test**
    - [ ] Invite a limited number of customers
    - [ ] Not a live launch; small scale test – by invitation only
    - [ ] Includes a call to action – "buy now," "sign up," "learn more"

- [ ] **Measuring Customer response**
    - [ ] Number of visits before someone activates
    - [ ] Number of people who tell friends
    - [ ] Speed with which those people activate
    - [ ] Rate of customer return to site

Exit criteria
- [ ] Simple test for assessing customer interest in the app or site
- [ ] Tactics for measuring response

- [ ] **Pass/Fail tests identified**

Checklist 19 Web/Mobile

Test The Product Solution With The Customer   Physical

Goal: Gauge whether customers believe the product is a strong solution to an important problem and if they'll buy it

Reference: Chapter 6, Test the Product Solution with the Customer

- ☐ **Prepare for the Meetings**
    - ☐ Introductory e-mail
    - ☐ Reference story
    - ☐ Script

- ☐ **Conduct Customer Interviews**
    - ☐ Customers who heard first "problem" presentation
    - ☐ Targets on expanded set of contacts
    - ☐ Several of each customer type
    - ☐ Use demo, prototype or MVP to describe product
    - ☐ Indirect sales – potential channel partners

- ☐ **Develop a Customer report card to record feedback**
    - ☐ Product and features
    - ☐ Intended market
    - ☐ Pricing
    - ☐ Distribution
    - ☐ Referrals

- ☐ **Thank-you notes**

Exit criteria
- ☐ Solid understanding of customers' problems
- ☐ Robust customer interest in product
- ☐ For indirect sales, be able to draw each channel partner's business model

- ☐ **Pass/Fail tests identified**

Checklist 20 physical

Measure Customer Behavior   Web/Mobile

Goal: Determine customer enthusiasm for MVP

Reference: Chapter 6, Measure Customer Behavior

☐ **Identify Critical Customer Metrics**
  - ☐ Purchase
  - ☐ Engagement
  - ☐ Retention
  - ☐ Referral
  - ☐ Cohorts

☐ **Mine the Data**
  - ☐ Traffic sources
  - ☐ Acquisition, activation rates
  - ☐ Customer engagement (time on site, number of visits before registration, etc.)
  - ☐ Number of referrals

Exit criteria:
  - ☐ Robust customer interest, excitement — enough to warrant moving forward

☐ **Pass/Fail tests identified**

Checklist 20 Web/Mobile

Identify First Advisory Board Members   All Channels

Goal: Begin to identify first advisory board members

Reference: Chapter 6, Identify First Advisory Board Members

☐ **Potential advisors approached**
  ☐ Technical problems
  ☐ Key customer introductions
  ☐ Domain-specific knowledge
  ☐ Product development

☐ **Potential advisors approached**

Exit criteria
  ☐ Initial list of advisory board prospects

☐ **Pass/Fail tests identified**

Checklist 21

Verify Product/Market Fit

Goal: Verify that the company has identified a serious problem, has a product that will address that problem and that there are enough customers willing to pay for that product.

Reference: Chapter 7, Verify Product/Market Fit

- [ ] **Assessment: Serious problem or important need?**
    - [ ] Number of customers with the problem
    - [ ] How customers rated problem
    - [ ] Whether customers attempted home-grown solutions
    - [ ] Workflow diagram with and without new product

- [ ] **Assessment: Does product address a want or need?**
    - [ ] Customer feedback reviewed
    - [ ] Amount of customer enthusiasm for product
    - [ ] Referral rate
    - [ ] Activation/acquisition rates
    - [ ] Review feedback
    - [ ] Review product messaging

- [ ] **Assessment: Are there enough customers?**
    - [ ] Market size, now and anticipated
    - [ ] Customer feedback
    - [ ] Competitive threats

Exit criteria:
    - [ ] Verify sizeable demand for solving the problem
    - [ ] Verify that the product fills the demand well in the customers' eyes
    - [ ] Update the Business Model Canvas

- [ ] **Pass/Fail tests identified**

Checklist 22

Verify Who Customers Are and How to Reach Them
All Channels

Goal: Verify that company knows its customers and how to reach them

Reference: Chapter 7, Verify Who Customers Are

- ☐ Customer archetypes
- ☐ Day in a Life of a Customer
- ☐ Customer responses assessed
- ☐ Customer behaviors, influencers assessed
- ☐ Channel map
- ☐ Costs assessed for each step of moving product
- ☐ Updated business model reflecting changes in customer acquisition costs

Exit criteria:
- ☐ Detailed understanding of who the customers are, how to reach them and what it costs to get them
- ☐ Update the Business Model Canvas

☐ **Pass/Fail tests identified**

Checklist 23

Verify Can We Make Money All Channels

Goal: Determine whether the company can be profitable

Reference: Chapter 7, Customer Discovery, Verify Business Model/Pivot or Proceed

- ☐ **Revenue Model Data**
    - ☐ Summary of customer report cards, indicating potential sales revenue over time
    - ☐ Market size estimates
    - ☐ Detailed information about the industry, customers, their behavior
    - ☐ Competitive product and pricing information
    - ☐ Channel cost and revenue potential summaries
    - ☐ Pricing plan
    - ☐ Customer acquisition costs

- ☐ **Accurate net revenue forecast for the next 4-8 quarters done three ways (good/better/best)**
    - ☐ Direct revenue
    - ☐ Net channel revenue
    - ☐ Total revenue
    - ☐ Acquisition costs
    - ☐ Basic operating costs
    - ☐ Cash burn
    - ☐ Cash at quarter end, by quarter

Exit criteria:
- ☐ Reasonable rough estimate of the company's revenue expectations across next four-eight quarters
- ☐ Update your business model canvas

Checklist 24

Verify Business Model – Pivot or Proceed   All Channels

Goal: Assess whether the modified hypotheses provide a solid foundation for moving forward to larger-scale testing in Customer Validation

Reference: Chapter 7, Customer Discovery, Verify Business Model/Pivot or Proceed

☐ **Modified hypotheses assessed**
    ☐ Problem/need identified
    ☐ Product solves product/need
    ☐ Sizeable market
    ☐ Viable, scalable, profitable business model
    ☐ Day in the Life of the Customer, with and without product
    ☐ Organizational chart of users, buyers and channels

☐ **Clear, measurable Validation Checkpoints identified**

Exit criteria: Full, honest assessment of Customer Discovery effort:
    ☐ Is there a big enough market that's hungry for the product?

Checklist 25

Craft Company Positioning All Channels

Goal: Create a clear, compelling message explaining why **your company** is different and the product is worth buying

Reference: Chapter 9, Customer Validation Phase 1: "Get Ready to Sell"

- ☐ **Message statement**
    - ☐ Condenses Value Proposition into single phrase or sentence
    - ☐ Emotionally compelling
    - ☐ Credible
    - ☐ Takes Market Type into account

Exit criteria:
- ☐ A short, pithy message that explains what the company stands for, what the product does and why customers should buy from it, trust it, and care

Checklist 26

Get Ready To Sell: Sales and Marketing Materials   Physical

Goal: Create a first version of the marking collateral toolset that will help close a sale

Reference: Chapter 9, Customer Validation Phase 1: "Get Ready to Sell"

☐ **Online tools**
  ☐ Website
  ☐ Social marketing tools
  ☐ Email messages and emailable marketing tools

☐ **Physical Sales Collateral and Materials**
  ☐ PowerPoint sales presentation
  ☐ Presentation leave-behind folder or brochure
  ☐ White paper or other executive summary
  ☐ Product feature spec sheet
  ☐ Product problem/solution overview
  ☐ Customer testimonials
  ☐ Business cards, order pads, etc.

☐ **Sales Presentations**
  ☐ Updated Problem Presentation
  ☐ Updated Solution Presentation
  ☐ Updated Product Presentation

☐ **Demos/Prototypes**
  ☐ How product works
  ☐ Key selling points
  ☐ Old way vs. new way of solving the problem

☐ **Data Sheets**
  ☐ Product data sheet for Existing Market
  ☐ Solution data sheet for New or Clone Market
  ☐ Product and Solution data sheets for Resegmented Market

☐ **Other materials**
    ☐ Price lists
    ☐ Contracts
    ☐ Billing system

☐ **For B-to-B companies, three versions of collateral materials**
    ☐ For earlyvangelists
    ☐ For technology gatekeepers
    ☐ For mainstream buyers

☐ **For B-to-C companies**
    ☐ Shelf talkers
    ☐ Retail packaging
    ☐ Coupons
    ☐ Ad slicks
    ☐ A plan that distinguishes the objectives, targets for and timing of each of the above

Exit criteria:
    ☐ Full complement of initial versions of sales and marketing materials

☐ **Pass/Fail tests identified**

Checklist 27 Physical

Get Ready To Sell — Acquire/Activate Customers   Web/Mobile

Goal: Devise plans for getting customers to the app or site to sign up or buy

Reference: Chapter 9, Customer Validation Phase 1: Get Ready to Sell

- ☐ **Acquire plan and tools**
  - ☐ Who is responsible for driving the program
  - ☐ Tactic
  - ☐ Budget
  - ☐ Timing
  - ☐ Acquisition goals
  - ☐ Multisided or not
  - ☐ Social, network and viral components
  - ☐ 4 weeks' worth of initial activities to test

- ☐ **Activation plan and tools**
  - ☐ On landing page
  - ☐ How customer arrived at site
  - ☐ Reinforce language/tone of invitation
  - ☐ Issue multiple clear calls to action
  - ☐ Explain what problem the product solves
  - ☐ Off landing page tactics to test
  - ☐ A/B tests

Exit criteria:
  - ☐ Initial "acquire" and "activate" plans for the first four weeks

- ☐ **Pass/Fail tests identified**

Checklist 27 Web/Mobile

Get Ready To Sell: Hire A Sales Closer   Physical

Goal: Identify someone with the necessary skills and experience to close deals

Reference: Chapter 9, Customer Validation Phase 1: Get Ready to Sell

- ☐ Experienced startup salesperson
- ☐ Good contacts in the target market
- ☐ Stellar listening, pattern recognition and collaboration skills
- ☐ Understand difference: closer vs. VP of sales
- ☐ Does not replace founders getting out in front of customers personally

Exit criteria:
- ☐ Experienced sales closer is hired

Checklist 28 Physical

Create a High Fidelity MVP   Web-Mobile

Goal: Develop a polished, functional MVP

Reference: Chapter 9, Customer Validation Phase 1: Get Ready to Sell

- ☐ Refined, more "complete" or polished version of the low-fidelity MVP used in Customer Discover to elicit customer feedback
- ☐ Part of the product – incomplete but polished rendering of product vision
- ☐ Limited features, but not second-class
- ☐ Invites more users to the product to test the acquisition and activation tactics
- ☐ Architected to deliver customer and product behavior data

Exit criteria:
- ☐ A High Fidelity MVP, which will be used to generate a steady stream of customer and product behavior data to refine the business model and product

Checklist 28 Web/Mobile

Sales Action Channel Plan   Physical

Goal: Develop a preliminary Sales Channel Action Plan to test the channel hypothesis developed in Customer Discovery.

Reference: Chapter 9, Customer Validation Phase 1: Get Ready to Sell

☐ **Refined distribution channel plan**

☐ **"Food chain" drawing**
    ☐ All organizations between company and end-user customers identified
    ☐ Each organization and its relationships with the company and with one another identified

☐ **Channel Responsibility Map**
    ☐ Relationships in the Company's distribution channel diagrammed
    ☐ Written descriptions of all responsibilities

☐ **Financial relationships between channel tiers mapped out**
☐ **Channel management plan devised**
☐ **Process identified for monitoring channel management plan**

Exit criteria: Preliminary sales action plan that
    ☐ Describes the channel "food chain" and attendant responsibilities
    ☐ Figures out the costs associated with each tier of the channel
    ☐ Addresses management of the sales channel

☐ **Pass/Fail tests identified as appropriate**

Checklist 29 Physical

Build Metrics Toolset   Web/Mobile

Goal: Determine which key business metrics to measure and develop a system or dashboard for collecting and monitoring data

Reference: Chapter 9, Customer Validation Phase 1: Get Ready to Sell

- ☐ **12 key metrics identified: Basic visit metrics (page views, unique visitors, pages/visit)**
  - ☐ Acquisition activities and behaviors
  - ☐ Activation activities and behaviors
  - ☐ Referral activities and behaviors

- ☐ **Dashboard created or purchased to collect and monitor data**
  - ☐ Focused on key metrics, not all metrics
  - ☐ Easy, at-a-glance format
  - ☐ Able to accommodate metrics needed later to monitor retention and referral, including user cohorts

Exit criteria:
  - ☐ List of key metrics to measure for customer acquisition, activation and referral efforts
  - ☐ System for monitoring metrics near real-time

Checklist 29 Web/Mobile

Develop/Refine The Sales Roadmap   Physical

Goal: Who are the company's customers and how will they purchase your product?

Reference: Chapter 9, Customer Validation Phase 1: Get Ready to Sell

- ☐ Sales roadmap developed
- ☐ Organization and influence maps refined
- ☐ Customer Access Map refined
- ☐ Sales strategy developed
- ☐ Implementation plan devised
- ☐ Team members identified to manage each facet of the plan

Exit criteria:
- ☐ A thorough plan for getting a foot in the door, making the sale, and seeing it through

Checklist 30 Physical

Hire a Data Analytics Sales Chief   Web/Mobile

Goal: Have a dedicated analytics expert on the senior management team

Reference: Chapter 9, Customer Validation Phase 1: Get Ready to Sell

- ☐ **Analytics chief identified**
    - ☐ Agility with numbers and analytics tools
    - ☐ Innate curiosity
    - ☐ Highly creative
    - ☐ Good collaborator
    - ☐ Easy to work with
    - ☐ Clout to make things happen when a pivot is required

- ☐ **Reporting schedule devised**

Exit criteria:
- ☐ Data Analytics expert hired to drive continuous improvement for the company

Checklist 30 Web/Mobile

Formalize Advisory Board All Channels

Goal: Formally engage advisors who can facilitate high-level introductions and are top-notch "out of the box" thinkers

Reference: Chapter 9, Customer Validation Phase 1: Get Ready to Sell

☐ **Advisory board roadmap assembled**
    ☐ Size – quality vs. quantity
    ☐ Ability to make high-level introductions
    ☐ Technical expertise
    ☐ Meetings or no meetings?
    ☐ Key potential customers
    ☐ Domain experts
    ☐ A seasoned CEO type
    ☐ Decide about compensation

Exit criteria:
    ☐ Formal depiction of the size, makeup and operation of the company's advisory board(s)

Checklist 31

Find Earlyvangelists   Physical

Goal: Identify passionate early visionaries to try to sell

Reference: Chapter 10, Customer Validation Phase 2: Get Out of the Building and Sell!

☐ **Earlyvangelists identified**

☐ **Appointments made**
    ☐ Introductory email
    ☐ Reference story
    ☐ Script

☐ **Hit-rate results tracked**

☐ **List of contacts expanded**

Exit criteria:
    ☐ Sales appointments with earlyvangelists

Checklist 32 Physical

Prepare Optimization Plans And Tools Web/Mobile

Goal: Prepare tools for testing the business model

Reference: Chapter 10, Customer Validation Phase 2: Get Out of the Building and Sell!

☐ **Optimization metrics identified**
☐ **Optimization priorities set**

☐ **Testing tools in place**
　　☐ Dashboard for monitoring results
　　☐ High-Fidelity MVP
　　☐ Acquire plan, tools
　　☐ Activation plan, tools

Exit criteria:
　　☐ Plan that defines acquisition metrics to optimize
　　☐ Plan for how customer behavior will be monitored/optimized

☐ **Pass/Fail tests identified**

Checklist 32 Web/Mobile

Get Out of the Building and Sell! Physical

Goal: Test sell the product

Reference: Chapter 10, Customer Validation Part 2: Get Out of the Building and Sell!

- ☐ Report card for collecting sales findings
- ☐ First meeting understanding: agenda, goals
- ☐ Agree on plan to enter at the right level
- ☐ "Before" and "after" visualized
- ☐ Customized presentations
- ☐ Purchase action plan (after positive meeting)
- ☐ Senior management engaged
- ☐ Thank-you note with next steps
- ☐ Custom proposal (signed)
- ☐ Spreadsheet of win/loss statistics, summarized data
- ☐ Agreed-upon number of orders to prove validation

Exit criteria: A realistic sense of the product's sales potential

☐ **Pass/Fail tests identified** (orders to prove validation)

Checklist 33 Physical

Optimize Getting Customers

Goal: Optimize "get customers" effort

Reference: Chapter 10, Customer Validation Part 2: Get Out of the Building and Sell!

- ☐ Customer Relationship hypotheses reviewed
- ☐ Dozen metrics identified for testing, daily monitoring
- ☐ Sequential plan for optimizing "get" funnel
- ☐ Optimization plan under way
- ☐ Spreadsheet for monitoring daily progress, next steps
- ☐ Test
- ☐ Retest
- ☐ Test again

Exit criteria: Quick, cost-effective, proven means for getting customers

- ☐ **Pass/Fail tests identified**

Checklist 33 Web/Mobile

Refine the Sales Roadmap

Physical

Goal: Develop an effective sales process

Reference: Chapter 10, Customer Validation Part 2: Get Out of the Building and Sell!

☐ **Corporate organization and influence maps**
    ☐ Influencers, recommenders, saboteurs, economic buyers ID'd

☐ **Selling strategy map**
    ☐ How account is entered
    ☐ Who is called on
    ☐ Order of calls
    ☐ Presentation

☐ **Flowchart depicting sales process**
☐ **Steps identified to completing sale, delivering product**

Exit criteria: Playbook for a repeatable and scalable sales process

☐ **Pass/Fail tests identified**

Checklist 34 Physical

Optimize "Keep" And "Grow" Results   Web/Mobile

Goal: Improve methods for retaining and "growing" customers

Reference: Chapter 10, Customer Validation Part 2: Get Out of the Building and Sell!

- ☐ **Basic customer retention and growth programs launched**
    - ☐ Costs, ROI monitored for each

- ☐ **Cohort analysis under way**

- ☐ **Two "Grow" metrics**
    - ☐ Viral Growth Factor
    - ☐ Customer Lifetime Value

- ☐ **"Other side" of multi-sided market also optimized**
    - ☐ Learn how "other side" works, buys
    - ☐ Determine sales roadmap for "other side"

- ☐ **Revenue model refined based on learning from optimization efforts**

Exit criteria:
    - ☐ Optimized "keep" and "grow" processes
    - ☐ Validated sales potential of app or site

- ☐ **Pass/Fail tests identified**

Checklist 34 Web/Mobile

Test Sell Channel Partners   Physical

Goal: Validate your channel strategy

Reference: Chapter 10, Customer Validation, Part 2: Get Out of the Building and Sell!

☐ **Channel targets identified and researched**

☐ **Meetings scheduled**
   ☐ Introductory e-mail
   ☐ Reference story and script

☐ **Channel/service partner presentation updated with early channel orders**
☐ **Report card for estimating sales from each channel**
☐ **Spreadsheet for summarizing data**

Exit criteria
   ☐ Orders or firm commitments from prospective channel partners
   ☐ Sales estimates from each channel

☐ **Pass/Fail tests identified**

Checklist 35 Physical

Test Sell Traffic Partners   Web/Mobile

Goal: Validate your traffic partner strategy

Reference: Chapter 10, Customer Validation Part 2: Get Out of the Building and Sell!

☐ **Traffic partner targets identified and researched**

☐ **Meetings scheduled**
- ☐ Introductory e-mail
- ☐ Reference story and script

☐ **Report card for estimating sales from each channel**
☐ **Spreadsheet for summarizing data**

Exit criteria
- ☐ Deals or firm commitments from prospective traffic partners

☐ **Pass/Fail tests identified**

Checklist 35 Web/Mobile

Develop Product Positioning All Channels

Goal: Formalize your *product's* positioning by Market Type

Reference: Chapter 11, Customer Validation, Phase 3: Product Development and Company Positioning

- ☐ Initial product positioning brief reviewed
- ☐ Customer feedback factored in
- ☐ Product positioning updated and refined

Exit criteria:
- ☐ Revised product positioning brief

Checklist 36

Match Positioning To Market Type All Channels

Goal: Ensure product positioning matches company's market type

Reference: Chapter 11, Customer Validation, Phase 3: Product Development and Company Positioning

☐ **Existing and Re-segmented Markets**: Product compared
    to its competitors'

☐ **New Market**: Vision and passion of what could be communicated

☐ **Clone Market**: Knowledge of comparative firms
    used to "predict the future"

Exit criteria:
    ☐ Ensure product position matches market type
    ☐ Validate positioning with customers

Checklist 37

Develop Company Positioning All Channels

Goal: Articulate Company Positioning

Reference: Chapter 11, Customer Validation, Phase 3: Product Development and Company Positioning

☐ **Mission statement developed in Customer Discovery revisited**
☐ **Company description, mission statement compared to competitors'**

☐ **Company positioning statement drafted**
    ☐ Simple
    ☐ Keeps customers in mind
    ☐ What Company does for me
    ☐ Why do I want to do business with them?
    ☐ Why does this company exist and how is it different?
    ☐ Matched to Market Type

Exit criteria:
    ☐ Statement that fully articulates the Company's vision and mission

Checklist 38

Validate Positioning All Channels

Goal: Validate product and company positioning, and product features

Reference: Chapter 11, Customer Validation, Phase 3: Product Development and Company Positioning

☐ **Meetings arranged with key analysts, industry influencers**
    ☐ Targets tracked and monitored since Customer Discovery
    ☐ Analysts' reports, press clippings, websites, etc., researched
    ☐ Script developed

☐ **Analyst presentation assembled**
    ☐ Market and product positioning
    ☐ Product feature details

☐ **Report card for gathering intelligence, tracking feedback**

Exit criteria:
    ☐ Detailed feedback about the marketplace and product from key analysts and influencers

Checklist 39

Assemble Data

Goal: Assemble all data, reports, questionnaires, map, diagrams, etc., for full review

Reference: Chapter 12, Customer Validation, Phase 4: The Toughest Question of All: Pivot or Proceed?

- ☐ Workflow map of the prototypical customer
- ☐ An organizational/influence map
- ☐ Customer archetypes
- ☐ Fully updated business model diagram (plus a few prior versions)
- ☐ Customer feedback from sales report cards
- ☐ Market size and market share estimates
- ☐ Channel feedback and revenue potential summaries
- ☐ Pricing, customer acquisition costs, and any major product cost changes
- ☐ Detailed information about the industry, customers and their behavior
- ☐ Competitive product and pricing information

Exit criteria:
- ☐ All key feedback, hard data, diagrams and the most recent business model canvas assembled for review
- ☐ Learning from Discovery and Validation incorporated into latest versions of the hypotheses documents and updated Business Model Canvas
- ☐ Intersections of/interactions among business model components reviewed

- ☐ **Pass/Fail tests identified**

Checklist 40

Validate Business Model

Goal: Use facts gathered to validate the business model

Reference: Chapter 12, Customer Validation, Phase 4: The Toughest Question of All: Pivot or Proceed?

☐ **Business Model Checklist**

    ☐ Value Proposition
    ☐ Customer Segments
    ☐ Value Proposition 2: Market Type
    ☐ Channels
    ☐ Customer Relationships
    ☐ Cost Structure
    ☐ Revenue Stream

Exit criteria:
    ☐ Ensure all business model hypotheses have been converted into facts

☐ **Pass/Fail tests identified**

Checklist 41

Validate Financial Model

Goal: Ensure the startup can become a profitable, scalable business before it runs out of money

Reference: Chapter 12, Customer Validation, Phase 4: The Toughest Question of All: Pivot or Proceed?

- ☐ **Value Proposition**
    - ☐ Product cost
    - ☐ Market size
    - ☐ Attainable market share
    - ☐ Customer impact of network effects

- ☐ **Customer Relationships**
    - ☐ Customer acquisition costs
    - ☐ Prospect conversion rates
    - ☐ Customer Lifetime Value
    - ☐ Customer switching costs

- ☐ **Market Type considerations**
- ☐ **Basic operating costs**

Channel costs
- ☐ Channel margin, promotion and shelf space fees

- ☐ **Revenue streams**
    - ☐ Average selling price
    - ☐ Total achievable revenue
    - ☐ Number of customers/year

- ☐ **Cash balance**
- ☐ **Do the Math**

Exit criteria:
- ☐ A full financial picture of the company's ability to succeed

- ☐ **Pass/Fail tests identified**   Checklist 42

Re-Validate The Business Model All Channels

Goal: Further validate the business model

Reference: Chapter 12, Customer Validation, Phase 4: The Toughest Question of All: Pivot or Proceed? Revalidate the Financial Model

☐ **Business Model Canvas revisited**

☐ **Business Model Checklist revisited**
    ☐ Value Proposition
    ☐ Customer Segments
    ☐ Value Proposition 2: Market Type
    ☐ Channels
    ☐ Customer Relationships
    ☐ Cost Structure
    ☐ Revenue Stream

Exit criteria:
    ☐ Determine if the company is making the best bet possible
    ☐ Assess if revenue is as high and costs as low as they can realistically be

☐ **Pass/Fail tests identified**

Checklist 43

Pivot or Proceed?

Goal: Decide whether to execute the business model

Reference: Chapter 12, Customer Validation, Phase 4: The Toughest Question of All: Pivot or Proceed?

- ☐ Did the Validation effort really convert opinions to facts?
- ☐ Business model diagram is updated
- ☐ Did the product sell well and easily?
- ☐ Is it clear that customers will continue to arrive at a steady, predictable, profitable pace?
- ☐ Repeatable and scalable sales process developed
- ☐ Product delivery timing checked
- ☐ Confirmation that company can deliver on what was sold, do as promised
- ☐ Profitable business model demonstrated
- ☐ Move forward or pivot?

Exit criteria:
- ☐ An informed decision about whether to move forward

☐ **Pass/Fail tests identified**

Checklist 44

Glossary

A/B Testing compares one version of a web page with another and sees which produces the best results.

Acquisition is the first step in the web/mobile "get/keep/grow" sales funnel. It gets people to visit your website, where you can then *activate* them by getting them to engage, purchase, or at least register for future sales efforts. Specific customer acquisition categories include *earned* and *paid media*, and tactics include search (SEM/SEO), e-mail, PR/blogs, viral, social nets.

Activation is the second step in the web/mobile "get/keep/grow" sales funnel. After you *acquire customers* you get them to register, participate or purchase on the website. Specific customer activation tactics include free trials, home/landing page.

Agile Development is the engineering method used to develop products (hardware, software or services) iteratively and incrementally with flexibility to react to customer feedback. It recognizes that customer needs and the final product spec cannot be fully defined a priori. Agile is the antithesis of *Waterfall Development*.

ARPU, or Average Revenue Per User, is a measurement of revenue typically applied by subscription services like cellphone or data plans to measure average long-term spending.

Awareness. In the physical channel, it is the first step in the "get customers" sales funnel. Tactics include earned media (pr, blogs, brochures, reviews), paid media (ads, promotions), online tools

Business Model is the description of how an organization creates, delivers and captures value. In this book it specifically refers to Alexander Osterwalder's 9-box *Business Model Canvas*.

Business Plan is a document written by existing companies to describe and launch follow-on or adjacent market products. It was mistakenly used for startups for decades until it was realized that no business plan survives first contact with customers. Typically has sections labeled: opportunity, industry background, competitive analysis, marketing plan, operations plan, management summary and financial plan.

Canvas refers to Alexander Osterwalder's 9-box *Business Model Canvas.* In this book we use the canvas to capture our business model hypotheses and as a scorecard over time.

Channel is the sales and/or distribution channel. How the product gets from your company to the customer. This book talks about "physical channels" and "web/mobile channels."

Channel Stuffing fills your sales channel with more product than the channel has end-user demand for. Used as an often-illegal tactic to inflate company revenue (when revenue is recognized as shipped to the channel, rather than shipped from the channel to the end customer).

Churn (sometimes called Attrition) is the number of customers or subscribers who leave a service in a period of time. Usually measured in monthly percentages. If 1 of 10 customers leave, the churn rate is 10%.

Cohort analysis is the measurement of a specific unchanging group of customers over time.

Collateral materials are the brochures, data sheets, white papers, sell sheets and other literature companies generally in physical channels develop to market their products or services.

Consideration The third step in the physical purchase decision cycle or "sales funnel." The sales funnel includes awareness, interest, consideration and purchase.

Company Building is the fourth of four steps in the Customer Development process. Founders reorganize the company from one focused on *searching* for a business model into building an organization that can *execute*.

CPA (cost per acquisition) The price web businesses pay to purchase referrals or customers from partners or other web businesses.

CPM (cost per thousand) is an advertising industry measure for purchasing media, whether it be magazine ad space or banners on websites. Ad pricing is based on CPM. A magazine selling 6,000,000 copies has 6,000 "M's" to sell.

Cross-Sell is a tactic to grow existing customers by encouraging them to buy complementary products, increasing their average order size. "Buy this other book and get 10% off." Or "buy this suitcase and add the toiletry kit." See *Up-Sell*.

Customer Archetypes are detailed descriptions of customer traits, including hard (demographics, psychographics, etc.) and soft (interviews, anecdotal material) customer data to form a descriptive profile *and an entire story about* a typical type or group of the company's customer(s). (Most startups typically have more than one archetypical customer.) Archetypes are used by both product and customer development to better focus on the target customer.

Customer Development first described in the Four Steps to the Epiphany, is the four-step process to organize the search for a repeatable and scalable business model. Executed by the *Customer Development Team.*

Customer Development Team replaces the traditional Sales, Marketing and Business Development in the discovery and validation steps of startups. The team is responsible for validating the business model hypotheses in front of customers. The team must have at least one founder with the authority to change the company's strategy.

Customer Discovery is the first of the four steps of Customer Development. In Discovery, founders articulate their hypotheses about the business model and then run experiments to test problem and solution in front of customers.

Customer Relationships are the strategies used by companies to *get* customers into its sales channel, *keep* them as customers, and over time *grow* their value to the company through additional revenue and customer referrals from them.

Customer Segment defines a single subset of a startup's customer universe and how they differ from others, as in "50+ golfers who play more than twice a month," often including the problems/needs they have. Companies define specific *value propositions* for each segment.

Customer Validation is the second of the four steps of Customer Development. In validation, founders take their tested hypotheses and try to get initial orders/users/ customers.

Customer Creation is the third of four Customer Development steps. In creation, once founders validate their business model, they expand sales and marketing activities to grow.

Data Chief is the senior executive at mobile/web companies who monitors and continually optimizes the results of customer acquisition, activation and retention efforts. Sometimes known as the CMO, VP-Marketing or database marketer.

Demand Creation is the specific set of acquisition activities to drive customers into a startup's chosen sales channel(s). It's the "get" customers portion of the "Get/Keep/Grow" process of creating Customer Relationships.

Earlyvangelist is a concatenation of "early adopter" and "evangelist." In a startup earlyvangelists are the company's first customers, who buy the product very early because it solves a problem or fills an urgent need for them.

Earned Media is the free exposure a company generates. It includes a wide range of exposure tools including SEO or natural search, press releases, product reviews, editorial features. Earned media are part of a company's *"Get customers"* programs.

"Executing" a Business Model is what companies do *after they have found* a repeatable and scalable *business model*. It is how companies grow revenue once they have refined and proven their plan to do so. It requires significant organizational changes. See *Search*.

Experiments are what startups conduct to test hypotheses. Experiments are designed as objective pass/fail tests. For example: "We believe we can acquire users with Google Adwords at a cost of 20 cents per click."

External Audit: is a survey of outsiders' perception of the company and/or its product, gleaned from interviews with consumers.

Eye Tracking is a tool that tells you the path users' eyes follow on a web page. Extremely useful for eliminating guess work in web page design. See *heat maps.*

Get, Keep and Grow activities are the steps companies take to acquire, retain and grow their customers. *Getting* customers, sometimes called demand creation, drives customers into a chosen sales channel(s); *Keeping* customers, or retention, gives customers reasons to stick with the company and product; and *Growing* customers involves selling them more and encouraging them to refer new customers.

"Get out of the building" is a key tenet of Customer Development. It observes that unlike an existing company, in a startup there are no facts inside the building, so founders need to get outside to talk to customers. It's the customers who can turn the startup's many guesses about its business model into facts.

Heat Maps are tools that tell you where users' eyes focus first, second and third on a web page page. It is based on *eye tracking,* which literally observes where users' eyes go on a web page.

High-fidelity MVP is the simplest minimum viable product (i.e. a website with the core features implemented, a demo of the physical product) and is often quite rudimentary or "rough and dirty." It is used to gather feedback about the validity of the customer *solution.* See *low-fidelity MVP.*

Home Page (sometimes called the "landing" page) is the initial or principal web page of a company's product or website. See *landing page and splash page.*

Hypotheses are the educated guesses a startup's founders have about their Business Model Hypotheses. Hypotheses are drawn on the Business Model Canvas, and tested and refined throughout the Customer Development process.

Internal Audit is a survey of what employees understand, perceive, or believe about the company, and its product, and their positioning. *See external audit.*

Iteration is a minor change to one or more of the nine boxes of the business model canvas. (For example, a pricing change from $39.99 to $79.99 or customer segment from boys 12-15 years old to boys 15-19.) See *Pivot.*

Interest. In the physical channel, Interest is one of four steps in the "get customers" sales funnel. *See awareness.*

Landing Page (sometimes called the "splash" page) is the web page that appears when a customer clicks on a link, ad, or e-mail. It can sometimes be a company's home page. The landing page displays sales copy that is connected to the ad or link. See *home page.*

Lean Startup is a combination of Customer Development and Agile Development popularized by Eric Ries.

Local/Global Maximum are the results of hypotheses tests, that may show a short-term low-level response (the local maximum). This contrasts with the global maximum – the best possible test result, sometimes overlooked in short-term market testing.

Low-fidelity MVP is the simplest minimum viable product (i.e. a landing page with a sign-up to get more information, a cardboard mockup of a physical product) used to gather feedback about the validity of the customer *problem*. *See High-fidelity MVP.*

Loyalty Programs are tactics such as "points" and "frequent shopper programs" used to "keep" existing customers and reduce churn. See *churn.*

LTV (LifeTime Value), usually calculated in dollars, reflects the total revenue a customer is worth over the lifetime of his relationship with the company. (This book arbitrarily picks three years.) LTV helps calculate how much a company can afford to spend to acquire a customer.

Market Type refers to the four startup market entry strategies:
1) entering an *existing* market with a higher performance product
2) *resegmenting* an existing market (via a niche or low-cost strategy)
3) creating a *new* market where one never existed before
4) creating a *clone* market – copying a business model from another country

Microsites are small sub-websites within a larger site dedicated to a single purpose (like a retirement planning site with a big bank website) that are often used to attract customers' attention from both within and outside the site itself.

Minimum Feature Set is another term used to describe *Minimum Viable Product*.

Minimum Viable Product (MVP) is the smallest group of features that will elicit customer feedback. Initially the MVP could be as simple as a PowerPoint slide, a video or demo. For web/mobile products it can be a *low- or high-fidelity MVP* that illustrates the "core" customer problem/need and demonstrates the product's solution.

Multi-sided Business Models may have several different customer segments. Each segment may have a different value proposition, revenue model and channel. For example, Google's search business has users who pay nothing to use its search site, and an advertiser or payer segment that uses its AdSense site and pays to reach the search users. Other business models, such as medical devices, may be even more complex and have four or more "sides" customer segments such as patients, doctors, insurers and hospitals.

Paid Media is media exposure that's purchased on TV, billboards, direct mail or the web. *See earned media.* Paid media are part of a company's *"Get customers"* programs.

Physical Channel is a sales and fulfillment channel with physical points of distribution and customer contact. Can include warehouses, retail stores, direct sales people. See *web/mobile channel*.

Physical Product is a product made out of atoms. Cars, planes, computers, and food are physical products, but social networks and search engines are not. See *web/mobile products*.

Pivot is a substantive change in one or more of the nine boxes of the business model canvas. (For example, a revenue model change from freemium to subscription model or a customer segment shift from boys 12-15 years old to women 45-60.) See *Iteration.*

Pricing describes the tactics a startup uses to determine how much it will charge in order to implement a profitable *revenue model.* (i.e. Freemium, Subscription, tiered or volume pricing, etc.)

Problem/Need (Customer) is why customers buy. In some markets customers rationally recognize they have a *problem* and search for a product that can solve it. (Think software, snow tires, catheters) In other markets products may be purchased for an emotionally perceived *need.* (Movies, fashion, video games, social networks.)

Product Development is the engineering group building the product. The *process* startup product development teams most often use to build the product is called *Agile Development.*

Reference Story is an introductory explanation used when first contacting a prospect via e-mail or phone. It emphasizes the problems you're trying to solve, why it's important to solve them, the solution you're building, and why it should be of interest to the prospect.

Revenue Model describes the *strategy* of how a company will make money. It answers the question, "Where will the revenue be coming from?" For example, eBay makes a small fee on every transaction on its site, while Netflix charges a monthly subscription. Also *see pricing.*

Sales Closer is the individual on the Customer Development Team responsible for "closing" (bringing in the order) initial earlyvangelist sales. They deal with the sales logistics founders may not have experience with (negotiating with purchasing agents, contract terms, etc.) They are not sales managers, and likely *not* going to become the company's VP of Sales.

Sales Funnel is a visual metaphor for tracking sales progress shaped like a dumb-bell. Consists of "Get/Keep/Grow" activities. Wide at the top with raw leads coming

in, the "Get" stage of the sales funnel narrows at each stage as the leads get qualified and turn into suspects, then prospects, then probable closes, until finally an order comes out of the narrow neck of the funnel. The "Keep" portion is narrow like a pipe, and the "Grow" part of the funnel widens to represent ever increasing revenue from an existing customer base.

Sales Roadmap provides details of how to execute each step of the *sales funnel*: who at a company to call on, in what order, to make a sale.

"Search" for a Business Model is what startups do *before* they have found a repeatable and scalable *business model*. Searching uses the Customer Development process described in this book. See *execution*.

Sell-in is the first order a channel places for a new product. It can also be a seasonal order like the pre-Christmas sell-in.

Sell-through the volume of product sold by the channel to the ultimate consumer. When products are "sold through," they can seldom be returned to the company. See *channel stuffing*.

Splash page is an archaic term for landing or home page. *See home page.*

Split Testing *see A/B testing.*

Startup is a temporary organization built to *search* for the answers to what makes a repeatable and scalable *business model*.

Take rate is the percentage of customers accepting (or taking) an up-sell/next-sell offer.

Traffic is the measure of how many individuals visit a store or website. They can arrive from paid media (i.e. Google, TV, or Facebook ads) or earned media sources (public relations, referrals).

Up-Sell is a tactic used to grow existing customers. It tries to get customers to buy more units or upgrade to a higher priced product to increase the average order size. See *Cross-Sell*.

Value Proposition describes the job being done for the customer. It includes features that are solutions to customer problems or needs (productivity, status, simplicity, convenience, etc.) for the customer segment(s). A value proposition should match a startup's *customer segment*.

Viral Loop is the process of satisfied customers referring others to a business, whether web, mobile or physical. It produces exponential increases in customer/users/traffic. See *viral marketing*.

Viral Marketing are the marketing activities used to stimulate customers to refer others to the business.

Waterfall Development is the engineering process used to develop products (hardware, software or services) linearly, sequentially, with a stage-by-stage method. The entire product and all features are specified up-front. Each waterfall stage is assigned to a separate team to ensure greater project and deadline control. Waterfall is the antithesis of *Agile Development*.

Web/Mobile Channel is a sales and fulfillment channel using the Internet to deliver messages and products to desktop, laptop, and mobile devices. Can include websites, the cloud, phone app stores. See *physical channel.*

Web/Mobile Product is a product made out of bits: social networks, video games, mobile applications are examples. See *physical product.*

How to Build a Web Startup:
A Simple Overview

How To Build a Web Startup – Lean LaunchPad Edition

If you're an experienced coder and user interface designer you think nothing is easier than diving into Ruby on Rails, Node.js and Balsamiq and throwing together a website. (Heck, in Silicon Valley even the waiters can do it.)

But for the rest of us mortals whose eyes glaze over at the buzzwords, the questions are, "How do I get my great idea on the web? What are the steps in building a website?" And the most important question is, "How do I use the business model canvas and Customer Development to test whether this is a real business?"

My first attempt at helping students answer these questions was by putting together the Startup Tools Page at www.steveblank.com. It's a compilation of available tools for startups. While it was a handy reference, it still didn't help the novice.

So below, I offer my next attempt.

How To Build a Web Startup – The Lean LaunchPad Edition

Here's the step-by-step process we suggest our students use in our Lean LaunchPad classes. All these steps are covered in Chapters 4, 5 and 6.

1. Set up the logistics to manage your team
2. Craft company hypotheses
3. Write a value proposition statement that other people understand
4. Set up the Website Logistics
5. Build a "low fidelity" web site
6. Get customers to the site

7. Add the backend code to make the site work

8. Test the "problem" with customer data

9. Test the "solution" by building the "high-fidelity" website

10. Ask for money

(Use the Startup Tools page at www.steveblank.com as a resource for tool choices.)

> *The tools listed in these Steps are examples. They are not recommended or preferred, just representative of what's available. New tools appear daily. Do your homework. See www.steveblank.com for a list of the latest tools.*

Step 1: Set Up Team Logistics

- Read Chapter 2 – The Customer Development Model and The Customer Development Manifesto
- Set up a WordPress blog to document your Customer Development progress
- Use Skype or Google+ Hangouts for team conversations

Step 2. Craft Your Company Hypotheses

- Write down your 9-business model canvas hypothesis
- List key features/Minimal Viable product plan
- Size the market opportunity. Use Google Trends, Google Insights, and Facebook ads to evaluate the market growth potential. Use Crunchbase to look at competitors
- Calculate Total Available Market, and customer value
- Pick market type (existing, new, resegmented)
- Prepare weekly progress summary: business model canvas update + weekly Customer Development summary (described after Step 10)

Step 3: Write a Unique Selling Proposition statement that other people understand
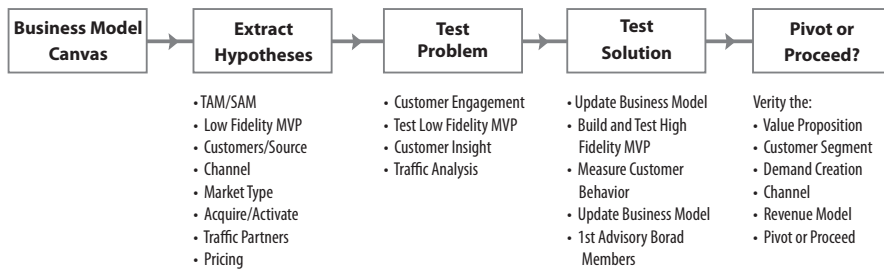
- If you can't easily explain why you exist, none of the subsequent steps matter. A good format is "We help X do Y by doing Z"
- Once you have a statement in that format, find a few other people (doesn't matter if they're your target market) and ask them if it makes sense
- If not, give them a longer explanation and ask them to summarize that back to you. Other people are often better than you at crafting an understandable Unique Selling Proposition.

Step 4: Website Logistics

- Get a domain name for your company. To find an available domain quickly, try Domize or Domainr
- Then use godaddy or namecheap to register the name. (You may want to register many different domains (different possible brand names, or different misspellings and variations of a brand name)
- Once you have a domain, set up Google Apps on that domain (for free!) to host your company name, email, calendar, etc.

For coders: set up a web host

- Use virtual private servers (VPS) like Slicehost or Linode (cheapest plans ~$20/month, and you can run multiple apps and websites)
- You can install Apache or Nginx with virtual hosting, and run several sites plus other various tools of your choice (assuming you have the technical skills of course) like a MySQL database
- If you are actually coding a real app, use a "Platform As A Service" (PAAS) like Heroku, DotCloud or Amazon Web Services if your app development stack fits their offerings

Business Model Canvas		Extract Hypotheses		Test Problem		Test Solution		Pivot or Proceed?
	→		→		→		→	

• TAM/SAM	• Customer Engagement	• Update Business Model	Verity the:
• Low Fidelity MVP	• Test Low Fidelity MVP	• Build and Test High	• Value Proposition
• Customers/Source	• Customer Insight	Fidelity MVP	• Customer Segment
• Channel	• Traffic Analysis	• Measure Customer	• Demand Creation
• Market Type		Behavior	• Channel
• Acquire/Activate		• Update Business Model	• Revenue Model
• Traffic Partners		• 1st Advisory Borad	• Pivot or Proceed
• Pricing		Members	

Customer Discovery for the Web

Step 5: Build a *Low Fidelity* Web Site

- Depending on your product, this may be as simple as a splash page with: your value proposition, benefits summary, and a call-to-action to learn more, answer a short survey, or pre-order)

- For surveys and pre-order forms, Wufoo and Google Forms can easily be embedded within your site with minimal coding

For non-coders:

- Make a quick prototype in PowerPoint, or

- Use Unbounce, Google Sites, Weebly, Godaddy, WordPress or Yola

- For surveys and pre-order forms, Wufoo and Google Forms can easily be embedded within your site with minimal coding

For coders: build the User Interface

- Pick a website wireframe prototyping tool, (i.e. JustinMind, Balsamiq)

- 99 Designs is great to get "good enough" graphic design and web design work for very cheap using a contest format. Themeforest has great designs

- Create wireframes and simulate your "Low Fidelity" website

- Create a fake sign up/order form to test customer commitment. Alternatively, create a "viral" landing page, with LaunchRock or KickoffLabs
- Embed a slideshow on your site with Slideshare or embed a video/tour using Youtube or Vimeo
- Do user interface testing with Usertesting or Userfy

Step 6: Customer Engagement (drive traffic to your preliminary website)
- Start showing the site to potential customers, testing customer segment and value proposition
- Use Ads, textlinks or Google AdWords, Facebook ads and natural search to drive people to your Minimally Viable web site
- Use your network to find target customers – ask your contacts, "Do you know someone with problem X? If so, can you forward this message on to them?" and provide a 2-3 sentence description
- For B2B products, Twitter, Quora, and industry mailing lists are a good place to find target customers. Don't spam these areas, but if you're already an active participant you can sprinkle in some references to your site or you can ask a contact who is already an active participant to do outreach for you
- Use Mailchimp, Postmark or Google Groups to send out emails and create groups
- Create online surveys with Wufoo or Zoomerang
- Get feedback on your Minimum Viable Product (MVP) features and User Interface

Step 7: Build a more complete solution (Connect the User Interface to code)
- Connect the UI to a web application framework (for example, Node.js, Rubyon Rails, Django, SproutCore, jQuery, Symfony, Sencha, etc.)

Step 8: Test the "Customer Problem" by collecting Customer Data

- Use Web Analytics to track hits, time on site, source. For your initial site, Google Analytics provides adequate information with the fastest setup. Once you've moved beyond your initial MVP, you'll want to consider a more advanced analytic platform (Kissmetrics, Mixpanel, Kontagent, etc.)

- Create an account to measure user satisfaction (GetSatisfaction, UserVoice, etc.) from your product and get feedback and suggestions on new features

- Specific questions, such as "Is there anything preventing you from signing up?" or "What else would you need to know to consider this solution?" tend to yield richer customer feedback than generic feedback requests

- If possible, collect email addresses so that you have a way to contact individuals for more in-depth conversations

Step 9: Test the "Customer Solution" by building a full featured High Fidelity version of your website

- Update the website with information learned in Steps 5-8

- Remember that "High Fidelity" still does not mean "complete product." You need to look professional and credible, while building the smallest possible product in order to continue to validate

- Keep collecting customer analytics

- Hearing "This is great, but when are you going to add X?" is your goal!

Step 10: Ask for money

- Put a "pre-order" form in place (collecting billing information) even before you're ready to collect money or have a full product

- When you're ready to start charging – which is probably earlier than you think – find a billing provider such as Recurly, Chargify, or PayPal to collect fees and subscriptions

For all Steps:

Give your team a weekly Lessons Learned progress report.

- Start by putting up your business model canvas
- Changes from the prior week should be highlighted in red
- Lessons Learned. This informs the group of what you learned and changed week by week – Slides should describe:
    1. Here's what we thought (going into the week)
    2. Here's what we found (Customer Discovery during the week)
    3. Here's what we're going to do (for next week)
    4. Emphasis should be on the discovery done for that weeks assigned canvas component (channel, customer, revenue model) but include other things you learned about the business model