Business Model Development: Using the Business Model Canvas to define Value Proposition & Customer Segment

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75% of all VC backed ideas
Why do they fail?
What can we do about it?
#1, #2, #3, and #4 are all the result of building the wrong thing.

79%

Drastically increase your chances of success!
More startups **FAIL** from a lack of customers than from a failure of product development.
How can we avoid...

BUILDING SOMETHING THAT NO ONE CARES ABOUT

(... and find something they DO care about?)
Why Magnitude Matters...
Traditional Approaches

focus on reducing either technology risk or execution risk.

Both are hugely important. Just not right now.
Three Questions for Any New Innovation

• What value are you delivering and to whom?
  – Value Proposition and Customer Segment
  – Product-Market Fit

• Is there a viable business model for delivering that value?
  – Business Model Canvas

• Is there an appropriate return on investment for the project?
  – Market size
  – Project plan

MUST ANSWER IN THIS ORDER
In The Past

• What value are you delivering to whom?
  – Value Proposition and Customer Segment
  – Product-Market Fit

• Is there a viable business model for delivering that value?
  – Entire business model canvas

• Is there an appropriate return on investment for the project?
  – Market size
  – Project plan

People assumed the previous two questions were correctly answered.
weeks vs. years
So what about MY technology?

NOBODY CARES

They only care about what it can do for THEM.
Your business idea needs to **solve a problem** your potential customer will **PAY** for.
Founders Run A Customer Development Team in Search of a Business Model
WHAT is a BUSINESS MODEL?

Components...

1. Value Propositions
2. Customer Segments
3. Channels
4. Customer Relationships
5. Revenue Streams
6. Key Resources
7. Key Partners
8. Key Activities
9. Cost Structure

How a company creates value for itself while delivering products or services for customers.
What are the most important costs inherent in our business model?
Which Key Resources are most expensive?
Which Key Activities are most expensive?
Through which Channels do our Customer Segments want to be reached?
How are they currently paying?
How would they prefer to pay?
How much does each Revenue Stream contribute to overall revenue?
For whom are we creating value?
Who are our most important customers?
What type of relationship does each of our Customer Segments expect us to establish and maintain with them?
Which ones have we established?
How are they integrated with the rest of our business model?
How costly are they?
What value do we deliver to the customer?
Which one of our customer’s problems are we helping to solve?
What bundles of products and services are we offering to each Customer Segment?
Which customer needs are we satisfying?
What Key Activities do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?
Who are our Key Partners?
Who are our key suppliers?
Which Key Resources are we acquiring from partners?
Which Key Activities do partners perform?
What Key Resources do our Value Propositions require?
Our Distribution Channels? Customer Relationships?
Revenue Streams?
VALUE PROPOSITIONS

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

which customers and users are you serving?
which jobs do they really want to get done?
how does each customer segment want to be reached? through which interaction points?
what relationships are you establishing with each segment? personal? automated? acquisitive? retentive?
REVENUE STREAMS

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

which resources underpin your business model?
which assets are essential?
KEY ACTIVITIES

which activities do you need to perform well in your business model? what is crucial?
KEY PARTNERS

which partners and suppliers leverage your model? who do you need to rely on?
what is the resulting cost structure?
which key elements drive your costs?
A strong and direct value proposition for a well-defined customer segment is the single biggest indicator of start-up success.
Value Proposition

What are you building and for whom?
1. **VALUE PROPOSITIONS**

- **Gain Creators**
- **Pain Killers**
- **Products & Services**
- **MVP**

2. **CUSTOMER SEGMENTS**

- **Persona/Archetype**
  - Gains
  - Pains
  - Jobs
  - Problem or Need

3. **CHANNELS**

4. **CUSTOMER RELATIONSHIPS**

5. **REVENUE STREAMS**

6. **KEY RESOURCES**

7. **KEY PARTNERS**

8. **KEY ACTIVITIES**

9. **COST STRUCTURE**

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**Product/Market Fit**
Value Proposition Canvas

How do we find product – market fit?

value map  customer profile

WHO is the Customer and WHY do they buy?
The set of value proposition benefits you design to attract customers.

Create
Observe
The set of customer characteristics you assume, observe, and verify in the market.

Fit
If a proposition doesn't fit anything, it may not be creating customer value. Don't worry if not all functions/gains are checked – you can't satisfy them all. Ask yourself, how well does your value proposition really fit your customer?
The set of value proposition benefits you design to attract customers.

Create, observe, and verify the market.

If a product or service doesn't fit anything, it may not be creating customer value. Don't worry if not all promises are checked – you can't satisfy them all. Ask yourself, how well does your value proposition really fit your customer?
**Customer Jobs**

what customers are trying to get done in their work and in their lives

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**Jobs** are the **tasks** they are trying to perform, the **problems** they are trying to solve, or the **needs** they are trying to satisfy.

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[INNOVISION and Strategy]

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Customer Pain

describe bad outcomes, risks, and obstacles related to customer jobs
Customer Gain

describe the more or less expected benefits the customers are seeking
The set of value propositions you design to attract customers.

Create

Observe

The set of customer characteristics you assume, observe, and verify in the market.

If a product or brand doesn't fit anything, it may not be creating customer value. Don't worry if not all products/brands are checked – you can't satisfy them all. Ask yourself, how well does your Value Proposition really fit your Customer?
Products and Services

A list of all the products and services a value proposition is built around
Pain Relievers

describe how your products and services alleviate customer pains
Gain Creators

describe how your products and services create customer gains
Product Market Fit?

value map  customer profile

Are you addressing customer gains?
Are you addressing customer pains?
Do you understand the customer’s jobs?
Value Proposition
Value Proposition describes the **benefit** your customer will derive by adopting your product or service.
The set of value propositions that you design to attract customers.

Create

Observe

The set of customer characteristics that you assume, observe, and verify in the market.

Fit

Outcome

If a product or service doesn't fit anything, it may not be creating customer value. Don't worry if not all products/services are checked – you can't satisfy them all. Ask yourself, how well does your Value Proposition really fit your Customer?
Pain Killing Value Proposition

Provides the **Expected Utility** while reducing or eliminating one or more:

- Time spent to accomplish a customer job
- Money or cost expended
- Risk reduction, elimination or mitigation
- Eliminate negative emotions or reactions
Pain Killing Value Proposition

Magnitude of the Customer’s Pain

Don’t Care
Nice to Have
Must Have
Pain Killing Value Proposition

Magnitude of the Customer’s Pain

Don’t Care
Nice to Have
Must Have

Mosquito Bite

Shark Bite

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Pain Killing Value Proposition

Magnitude of the Customer’s Pain

Vague Future Ailment (Don’t Care)?
Latent need, diffuse benefit, non-specific (vitamins)

Mosquito Bite (Nice to Have)?
Annoying, but not critical or life threatening (bug spray)

Shark Bite (Must Have)?
Life threatening must have (tourniquet)
The set of value propositions you design to attract customers. Create. Observe. The set of customer characteristics you assume, observe, and verify in the market. Fit. If a Pain Reliever or Gain Creator doesn't fit anything, it may not be creating customer value. Don't worry if not all pixels or goals are checked – you can't satisfy them all. Ask yourself, how well does your Value Proposition really fit your Customer?
Gain Creating Value Proposition

Provides the **Expected Utility** while increasing or generating one or more:

- Time, Increase Functional Utility
- Money, Increase Profitability
- Generate Positive Emotions
Key Questions for Value Prop

• **Problem Statement:** What is the problem?
• **Ecosystem:** For whom is this relevant?
• **Competition:** What do customers do today?
• **Technology / Market Insight:** Why is the problem so hard to solve?
• **Market Size:** How big is this problem?
• **Product:** How do you do it?
Defining a great

Value Proposition?

• Customers would actually say it
• Customers understand it immediately
• A direct benefit to the customer
• Uniquely delivered by your company
• Specific and quantitative
• Concise
Value Proposition Common Mistakes

• Confusing features with value
• Any word ending in “-er”
• Not linked to a specific customer segment
• Lacks specificity
• “nice to have” instead of a “got to have”
• Not enough customers care (non viable market)
Customer Segments

Who are your customers?

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Customers are **PEOPLE**. The question is **Who?**
Customer Segments

• Companies do not buy anything.
  • PEOPLE do.

• Who are you selling to?
  – The Customer Segment
WHAT does GEICO provide?  Car Insurance

WHY does the Customer care?  Low Cost

WHO is their target customer?  Cost Conscious Drivers
What Makes a Good Customer Segment?

• They **immediately** grasp the value

• **Obvious** who they are

• There are very few people that fit the description that won’t buy your product

• Willingness and ability to pay

• They are **PEOPLE** (not companies, departments…)

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Customer Segmentation

Common Mistakes

• Too broad and vague

• Confused with industry segments

• Not traced through the value chain

• At organizational or department level

• Customer doesn’t “own” the metric or value
What (product) does it do?
How (features) does it do it?
• 4k30 resolution
• 12MP Burst at 30FPM
• Capture single photos
• Time lapse mode
• Night settings
• WiFi / Bluetooth connectivity
• HiLight tagging
• Ultra-engaging wide angle view
• Protune mode for Photo+
• Improved Camera Control
Why (Value) *does it do it*?
Workshop #2 – Business Thesis

• Take ~10 minutes to work as a team to draft three value propositions for three different stakeholders within one Industry Segment.

  **Who**  (Customer Segment)

  **What**  (The Solution)

  **Why**  (Value Proposition)

• End with Cohort readout
Value Proposition example: Harlee needs a new car (it’s more than just a vehicle)
Option 1: The Professional

- Environmentally friendly
- Autonomous
- techie factor
- Performs like a supercar

Tesla Model S
all-electric sports sedan

Add’l considerations
- Range, charging stations
- local distributors, service providers
- Battery life?

- My garage is my gas station
- Fewer trips for service
Option 2: The Mid-Lifer

- Perceived bang for the buck
- German sportscar
- Open air
- “I have arrived!”

Porsche Boxster

convertible roadster

Gain Creators

Products & Services

MVP

Pain Killers

Add’l considerations:
- Family of 5
- Insurance expense
- Teen drivers
- Resale value

- Helps make up for shortcomings
- Less time commuting
Option 3: The Tough Guy

- Can haul toys (bikes, dirtbikes, etc.)
- Can run over small villages
- No peagravel driveway is too gnarly

Ford Raptor

- Can haul toys (bikes, dirtbikes, etc.)
- Can run over small villages
- No peagravel driveway is too gnarly

- Helps make up for other shortcomings
- I can sell the trailer that takes up so much garage space
- I can stop asking to borrow my friend’s truck

Add’l considerations:
- Fuel economy
- Available accessories
Option 4: The Little League Coach

- “I have arrived!”
- The ONLY AWD minivan → exclusivity
- Three boys & a dog for 1,000mi? No problem

Toyota Sienna

AWD minivan

Gain Creators

Products & Services

MVP

Pain Killers

Add’l considerations:
- A/V options
- Insurance expense
- Emotional attachment

- Eliminates door dings
- Kids’ occupied by rear-seat entertainment so I can listen to NPR
- By far the least expensive option
So, who am I?

The Professional

The Mid-Lifer

The Tough Guy

The Coach
Oh what a feeling!!!

The set of value proposition benefits that you design to attract customers. Create, observe. The set of customer characteristics that you assume, observe, and verify in the market. Fit. If a Pain reliever or Gain creator doesn't fit anything, it may not be creating customer value. Don't worry if not all pains/gains are checked – you can't satisfy them all. Ask yourself, how well does your Value Proposition really fit your Customer?
Questions?