Value Proposition and Business Model Canvas

Modified from MaRS Entrepreneur’s Toolkit Workshop and Workbooks
Presentation Agenda

1. Value proposition & business model
2. Value proposition process
3. Customer validation – Problem/solution fit
4. Activity: Value proposition statement
5. Business model canvas process
6. Customer validation – Solution/market fit
7. Activity: Business model canvas
Value Proposition

• A value proposition is a statement of the functional, emotional and self-expressive benefits delivered by your brand/offering that provide value to the target customer.

• It describes the unique value of your product or brand and offers a compelling reason for customers to buy.
Value Proposition

The **value proposition statement** should consist of the following components:

- What you are offering to customers
- The specific value associated with your offering
- For whom you are creating the value
- (...Why your product is different from everything else on the market)
A **business model** describes the **value** an organization offers to its customers. It illustrates the **capabilities and resources required** to create, market and deliver this value and to generate profitable, sustainable revenue streams.

Basically, “What is required to deliver your value proposition”? 
Process for Crafting a Value Proposition

1. Idea
2. Customer Problem Assumptions
3. Test Assumptions
4. Evaluation
5. Validated?
   - YES: Next Step: Determine Your Product Solution
   - NO: CHANGE / ITERATE
6. Change or Exit?
   - EXIT: New Ventures
Describe Your Idea – Make Assumptions

• Brainstorm who the target customer is and what problem you solve for them

• Is this an important or urgent problem?

• How do you plan to solve the problem?

• Who is the competition and how do they currently solve the problem?

• What is unique about your way of solving the problem?
Validating Assumptions

• Determine what is fact and what is an assumption concerning your target customer and problem

• Facts have **objective evidence** (research, measurable data)

• What information do you need to collect to validate your assumptions?
Validating Assumptions

• Conduct customer interviews, primary or secondary market research

• Evaluate the results
  • Is the market problem urgent?
  • Is the market problem pervasive?
  • Will your buyers pay to have this problem solved?

• Modify your value proposition accordingly
Validating Assumptions

1. State your hypothesis
2. Test problem hypothesis
3. Test product concept
4. Verify

Blank, Steve *Four Steps to Epiphany*
Validating Assumptions

- **Verify**
  - Validate: Confirmed value proposition
  - Iterate: change value proposition
  - Exit: Don’t spend any more money!
Product Development – An Iterative Process

• After validation of target customer and problem

• Testing assumptions related to your solution

Progress is iterative

TIME

VALUE

Minimum Viable Product

Whole Product

Progress is iterative
The Meaning of Value

• List 15-20 different values you may get from buying or doing things

• Why do you spend money on things you buy?

• Why do different people shop at different stores? What unique values does each store offer?

• How do people select a car or vehicle to buy?
Examples:

Good: “Winners is a department store that offers fashion conscious consumers the latest brand names for up to 60 per cent off.”

Bad: “Winners is an off-price department store owned by TJX that employs international sourcing and buying power.”

What is it?
For whom?
Values?
Examples:

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What is it?
For whom?
Values?
Examples:

Good: “A1 Industries has developed an economical and easy-to-use chemical additive that allows paint manufacturing companies to reduce the environmental impact of their products

Bad: “A1 Industries has discovered a chemical isomer additive that allows for a reduction of VOC emissions.”

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What is it?
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Examples:

Good: “Google is the world’s largest search engine that allows internet users to find relevant information quickly and easily.”

Bad: “Google uses a patented page-ranking algorithm to make money through ad placement.”

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Are Internet Users really Google’s customers?
Examples:

Good: “Google is the world’s largest search engine that automatically provides advertisers with potential customers tailored to the ad content, increasing click-through rates and conversion rates.”

Bad: “Google uses a patented page-ranking algorithm to make money through ad placement.”
**Activity: Creating a Value Proposition Statement**

The *value proposition statement* should consist of the following components:

- What you are offering to customers
- The specific value associated with your offering
- For whom you are creating the value
- (...Why your product is different from everything else on the market)
Determining your value proposition and testing it with customers is a crucial first step in validating the \textit{problem/solution} fit.

Now we need to figure out how to make money from the value proposition. We need to validate the \textit{solution/market} fit.
Importance of Business Model

“A start-up is a temporary organization, designed to search for a sustainable business model.” – Steve Blank
The Business Model Canvas

Osterwalder, Alexander, Business Model Generation, 2009
## The Business Model Canvas

### Key Partners
Who else do you need to make your model work?

### Key Activities
What things must you do to attract customers and produce your value proposition?

### Key Resources
What resources do you need to perform the key activities?

### Value Proposition
What problem do you solve? Who is the target customer? What is your solution? What benefits or values does your solution deliver to them?

### Customer Relationships
What types of relationships do you have? How do your customers want to relate to you?

### Customer Segments
Who do you serve? Who pays you? Who uses your product?

### Channels
How do customers find you? How do they buy? How do you deliver?

### Cost Structure
What does it cost to operate the model?

### Revenue Streams
How do you get paid? How much?
## Case Study - iPod

### The Business Model Canvas

<table>
<thead>
<tr>
<th>Key Partners</th>
<th>Key Activities</th>
<th>Value Proposition</th>
<th>Customer Relationships</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Foxconn</td>
<td>- Managing relationships with content partners - iTunes and iPod design - Marketing &amp; Sales</td>
<td>A cool-looking, intuitive, music device for young audio enthusiasts that holds thousands of songs and seamlessly integrates with iTunes software</td>
<td>- Personalized recommendations through iTunes - “Self-serve” music purchase - Cool Apple stores</td>
<td>Young (18-35), internet-savvy music fans with disposable income</td>
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<tr>
<td>- Music creators</td>
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<tr>
<td>- Retail stores</td>
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<td>- Music companies</td>
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<td>- Podcast creators</td>
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<tr>
<td>- H/W tech providers</td>
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| Key Resources | | | | |
| - iPod hw/sw | - iTunes software | - Apple brand | - Human capital | |

| Channels | | | | |
| - iTunes music store | - Retail stores | | | |

| Cost Structure | | | | |
| - Web platform hosting | - Marketing & distribution cost | - Salaries for human capital | - Assembling cost | - Equipment supply |

| Revenue Streams | | | | |
| - Consumer sales of iPods | - online sales of songs/videos | - iPod accessories | | |
Uses of the Business Model Canvas

- Evaluating different potential customer segments, different value propositions and different business models
- Determining the feasibility of a business
- Presenting the business to investors / partners
- Preparing to write a business plan
Business Model Process

Value Proposition + Business Model Idea

Business Model Assumptions

Test Assumptions

Evaluation

Validated?

Next Steps:
1. Revenue Forecast
2. MarCom
3. Product Management
4. Sales

Change or Exit?

New Ventures

CHANGE/ITERATE

NO

YES

EXIT
More on Channels

• Three types
  • Communication – with your potential customers
  • Sales – where buyers and sellers agree on the transaction
  • Logistics/distribution – physically deliver your product to the customer
More on Key Resources and Partners

Resources:

- Anything within your control that can be leveraged to create and market your value proposition
  - IP, technical expertise, human resources, financial and physical assets, key contracts and relationships etc.

Partners:

- Should help your business achieve & sustain market leadership:
  - By creating product solutions as quickly as possible (time to market)
  - By differentiating your product or service
  - By adding to your credibility
More on Activities

• Describe the key processes required to weave together elements of the canvas and deliver the value proposition

• Include broad categories such as R&D, production, marketing, sales, customer service

• Include specific activities particular to your business under each broad category
More on Revenue Streams and Cost Structure

Revenue Streams

• Basically define your business model
• How you charge and where the money comes from

Cost Structure

• Cost-driven vs value-driven business?
• Fixed vs variable costs
• Economies of scale
• Does the cost structure allow a reasonable profit?
Double-sided Business Models

• Example: Advertising based business models
  • Advertisers pay for the attention of the audience provided by the business
  • The business creates content to attract the audience’s attention

• Must have compelling individual value propositions and business models for each customer group (advertisers, and audience)

• E.g. Facebook, Google
Business Model Analysis – PEST Analysis

• Evaluate external trends, and the potential impact on your business (on revenue / costs, customer behaviour, regulation, competition etc.)

• PEST
  • Political
  • Economic
  • Social and Cultural (Societal)
  • Technological

• Identify most important positive and negative trends
  • Does it create an opportunity or threat? Likelihood of occurring? Business impact level? Global or local effect?

• Build scenarios (most/least likely) & update canvas
Business Model Analysis – SWOT Analysis

- Strengths and weaknesses evaluate company’s internal processes
- Opportunities and threats are external factors which may affect a business
- Use to evaluate your business or competitors

Strengths
Weaknesses
Opportunities
Threats
Business Model Analysis – Porter’s Five Forces Analysis
Testing Business Model Assumptions

Evaluate the Canvas

• Are the points in your canvas facts or assumptions?
• Which parts are you least certain of?
• What do you need to do or know to clarify those parts?

Customer validation – “Four Steps to the Epiphany” by Steve Blank
Testing Business Model Assumptions

Test the Assumptions

• Do you have a repeatable sales process?

• Try to sell your product to potential customers

• Validation: someone is willing to exchange money for your product

• Refine your documentation and assumptions
Internal Analysis – Sustainable Business Models

- **Customer lifetime value (CLTV) must exceed customer acquisition cost (CAC)**
- CLTV should be 3-5 times CAC
- CAC should be earned back in less than 12 months
- CAC should be less than 15% of the size of an average customer order

See handout on calculating CLTV and CAC
Customer Acquisition is Key

“Many start-ups fail because they lack customers – not because they lack a great product”

CLTV > CAC
Activity: Business Model Canvas

• Use value proposition from previous activity
• 10 minutes to fill out the canvas or add to it
• Discuss in groups
  • Focus on what evidence you have or don’t have
  • What items are you least sure about; those based on untested assumptions? (circle three)
  • Make a list of yes/no questions you would like answered about these items
  • How will you test these and collect the required data? What is your action plan and next steps?
Action Plan

When you get back to the office, work these validation methods into your business plan / action plan