

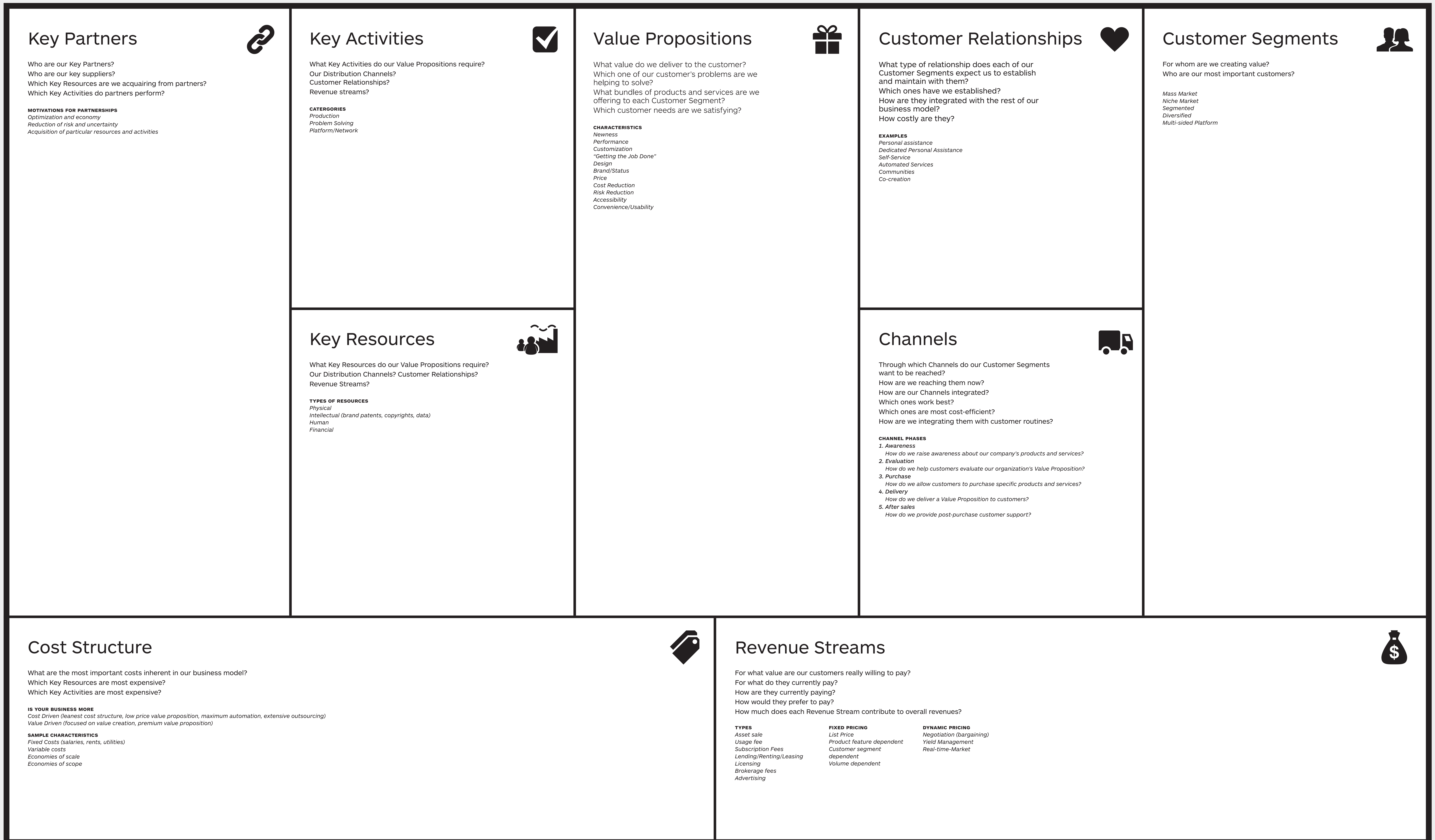
The Business Model Canvas

Designed for:

Designed by:

Date:

Version:





7 Questions to Assess Your Business Model Design

A scale

Use this scale to assess your business model design.
How do you perform on a scale of 0 to 10?

1. Switching costs



2. Recurring revenues



3. Earn before you spend



4. Game changing cost structure



5. Getting others to do the work



6. Scalability



7. Protection from competition





Testing Your Business Model

A Reference Guide

Testing is usually associated with expensive pilot projects at the end of the product development process when it's usually too late to make major modifications or change course.

In the following pages we outline a number of testing techniques that you can already apply during the search and design phase of your business ideas. These techniques enable you to generate market facts rapidly and cheaply while you are still seeking to understand your customers and design your value proposition and business model.

As outlined earlier, testing goes beyond interviewing or market observations, and gets potential customers to perform certain actions that prove their interest.

This type of testing can be applied as early as the instance you have an idea. The facts you gather in the process should continuously inform your search for great value propositions and business models.

We identified three categories of testing techniques:

- **Testing interest & relevance**
- **Testing willingness & ability to pay**
- **Testing preferences & priorities**

Now get out there and start testing!





Testing Interest & Relevance

What you measure:

Do potential customers show interest in your ideas? Are your ideas relevant to them? Are they interested enough to perform an action?

You can start testing the interest and relevance of your ideas with customers before even having a concrete value proposition in mind. By testing jobs, pains, and gains you can figure out if customers even care about the issues you intend to address.

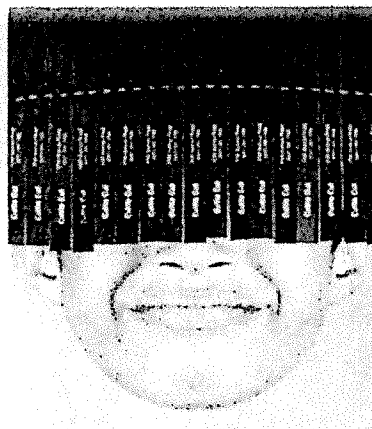
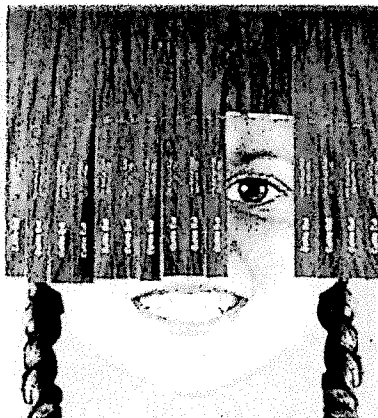
The following techniques allow you to get started on testing your customers' interest:

- Ad Tracking / "Fake" Ads
- Landing Pages

Ad tracking / "Fake" Ads /

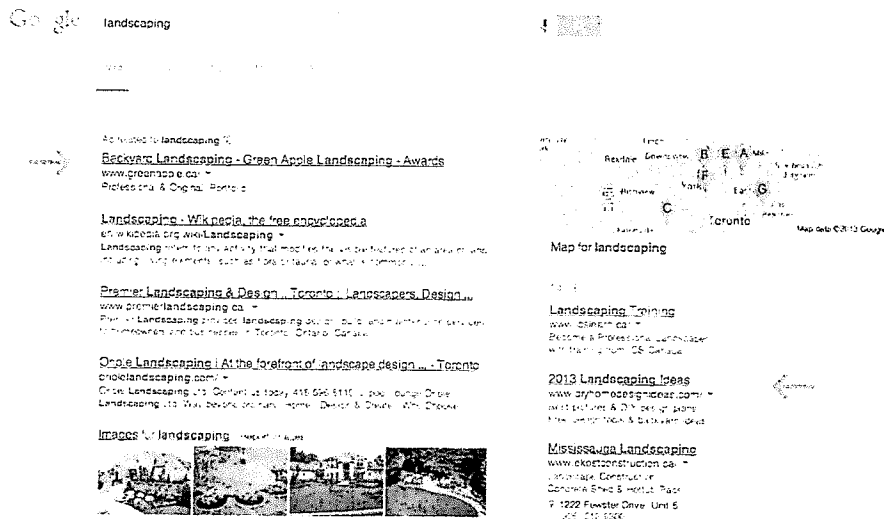
Ad tracking is an established technique that is used by advertisers to measure the effectiveness of ad spending. The same technique can be used in a powerful way to track the interest or lack of interest of potential customers for a new value proposition that doesn't even exist yet. If few or no potential customers respond to your ad campaign they either don't have the job, pain, or gain you are planning to address or they don't see fit in your advertised value proposition.

Tear-off ads or flyers are a low-cost and low-tech way to learn from a local advertising campaign.



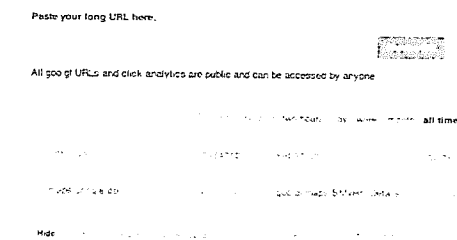


Google ads are a very scalable way to test potential customers' reactions to certain search terms. With a small budget you can run a campaign on Google AdWords and you only pay if people click on your ads and visit your landing page.



Billboard, magazine, or online banner ads are a very rich, but usually more expensive way to test ideas, if the ad features a call to action that allows you to measure potential customers' interest.

Google url shortener

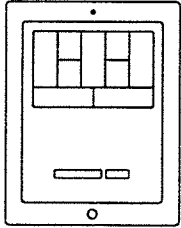


Link tracking in general is a great way to track people's interest. For example, when you send people a URL to your offer in an email, make sure you track if they click on it or not. This can easily be done with services like goo.gl. If people don't click on the link you sent them they are not interested or have more pressing issues.



Landing Pages

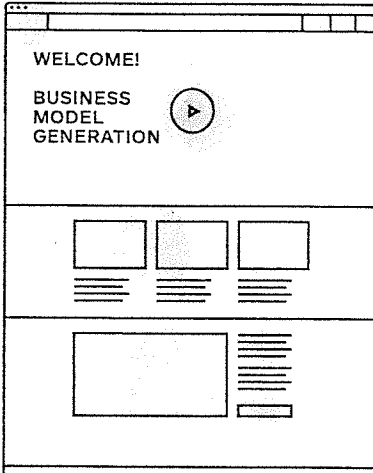
Setting up so-called landing pages on the Internet is a very quick and low-cost approach to testing people's interest in an idea. While this technique originates from online services it can be applied to physical products just as easily. The goal of a landing page is to attract traffic and then test several calls to action with potential customers such as the ones outlined below.



john@email.co | SUBMIT →

Asking people to **sign-up with their email** to be notified about the launch of a product is a simple way to ask potential customers for a small "investment" (e.g. taking the time to sign up and handing over their email address) that proves their interest.

Getting people to **fill out a survey** is another action that can provide valuable information about people's interest. However, as outlined previously for interviews, surveys are a great source for information, but not a reliable source of facts. The main fact resulting from people filling out a survey is that they are willing to invest their time.



WELCOME!

BUSINESS
MODEL
GENERATION

Measuring click activity on your landing page is another source of interesting learning. If you have several elements on your landing page visitors will click on those. So-called heat maps will show you where visitors click most and you'll often be in for a surprise.



Testing willingness & ability to pay

What you measure:

Are potential customers interested enough in the features of your value proposition to buy? Will they put their money where there mouth is?

Validating your customers' interest and gathering facts that prove you are addressing issues that are relevant to them is not sufficient. You also want to prove that they are willing to pay you for addressing those issues.

The following techniques allow you to get started on testing your customers' willingness to pay:

- "Fake" Sales
- Pre-Sales
- Minimum Viable Products

"Fake" Sales

There is a big difference between people telling you they are interested in your value proposition and them pulling out their wallet, credit card, or unlocking a budget in a business to business environment. It's the difference between information and facts. Simulating a "fake" sales for an unfinished or even non-existing value proposition is a great way to get to those facts. Of course you need to manage what happens once the "customer" has completed the "fake" purchase, since the value proposition doesn't yet exist. Being transparent, explaining them that it was a test and then offering them a future discount for the value proposition you are testing or giving them another goodie is usually a powerful way to turn them into great advocates for your cause. There are several techniques to simulate a purchase.

The simplest technique to simulate a purchase is to put a **buy now button** on your website or landing page. You can go as far as collecting credit card information (but then destroying them immediately) or simply measure the number of clicks on the button. You can easily do this for digital as well as physical products.

BUY NOW →





An established technique in fast moving consumer goods (FMCGs) is the “fake” sales of a product in only **one retail location** for a very limited amount of time. Don't confound this with a pilot sales, which is usually more extensive and more expensive and often covers an entire market. Traditional pilot sales usually come much later in the testing process.

Pre-Sales

Pre-selling before a value proposition or product fully exists has become an increasingly popular method to test market interest. Several internet platforms have made pre-selling a very easy process. While pre-sales is relatively standard process in large industrial investment goods it is now also very common in mass market consumer goods.



KICKSTARTER

Pebble: E-Paper Watch for iPhone and Android

by Justin Welsh, Founder of Pebble

PROJECT NAME: Pebble



66,356
BACKERS
\$10,166,359
PLEGGED OF \$100,000 GOAL
8
DAYS TO GO

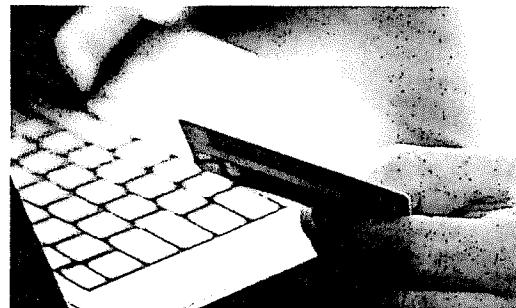
THIS PROJECT WILL BE FUNDED ON PLEDGE
MAY 15, 2012 PM 12:00



PLEDGE \$1 OR MORE

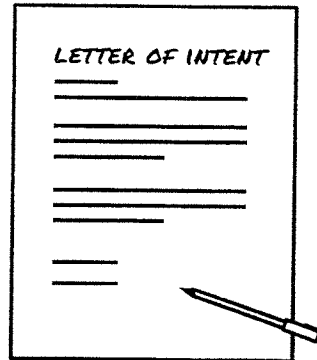
Kickstarter is one of the most popular platforms for pre-selling. You can advertise a project on the platform and people can pledge money to make it happen if they like it. Projects only receive the money if they reach their funding goals.

Collecting credit card information on your own platform, but charging them later is more complicated than using an off-the-shelf platform, but perfectly possible. The advantage is that you retain the full control over the legal and commercial aspects.





Pledges, letters of intent, and signatures under non-legally binding documents are a powerful technique to test potential customers' willingness to buy even if they are not a binding pre-sales.



Minimum Viable Products (aka prototyping)

The so-called Minimum Viable Product (MVP) is a strategy used for fast and quantitative market testing of a value proposition, product, service, or feature. It was initially used for web applications and popularized by Eric Ries. An MVP is not always a smaller or cheaper version of your final product. Often a cheaper proxy allows you to test the assumptions underlying your value proposition more quickly and more cost effectively. Ask yourself what you really want to learn and what the cheapest hack possible is to test that assumption.





Testing Preferences & Priorities

What you measure:

Which features of your value proposition do potential customers prefer? What do they really value? What do they prioritize?

When you are designing a value proposition you will often be confronted with the question of which issues are more relevant to customers or which features they value more. Generating facts on your customers' preferences and priorities is a much better approach to design than prioritizing solely based on your assumptions. The techniques outlined in this section also allow you to learn more about your customers' take on alternative prices.

The following techniques allow you to get started on testing your customers' preferences:

- Split Testing
- Innovation Games®

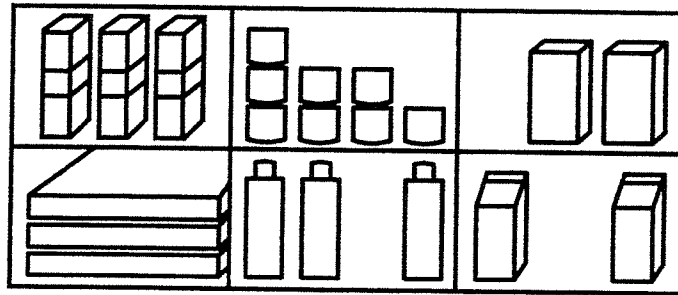
Split Testing

Split testing, also known as so-called *A/B testing* is a powerful technique to test the performance of two or more options. You compare two or more identical versions of a value proposition, minimum viable product or landing page with one variation per version that you want to test. Even marginal changes can sometimes have a major impact on behavior. In e-commerce, for example, the location of a purchasing button, the color of a website, etc. can all have major impacts on purchasing behavior. The goal of split testing is to identify changes that increase or maximize an outcome of interest.

Landing pages are the most common technique used to perform split tests for new value propositions. For this book, for example, we tested several book titles by performing split tests.



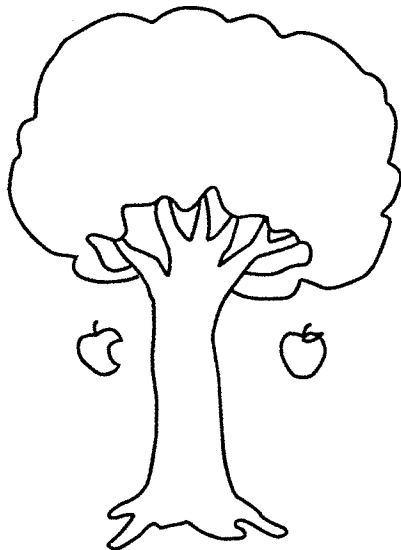
Split tests can also be applied to physical products or services by using *split groups*. For example, in fast moving consumer goods, retailers often test the best location of goods in their shelves and aisles. Nothing prevents you from testing services with slightly different features with customer and measuring the behavior.



Innovation Games®

Innovation Games® are a powerful technique popularized by Luke Hohmann that help you unearth, describe, and prioritize value propositions and features by using collaborative play with your customers. These games can be played by customers online or in person.

Below you find three of several Innovation Games® that help you in your undertaking to design stuff people want.



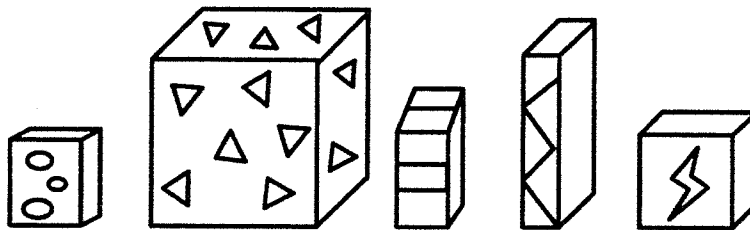
Prune the *Product Tree* uses the metaphor of a gardener pruning a tree to map out how customers would like to see the features of a value proposition grow over time. In this game customers place index cards with features on the drawing of a tree to shape its growth. Cards on the outer edges of the tree are considered longer term features and represent the future. Cards placed closest represent features to add in the near term.



The **Buy a Feature** game gets customers to prioritize features, rather than just debating which features customers find most important. In this game you give customers a list of potential features and provide each with a price. Just like for a real product, the price can be based on development costs, customer value, or something else. Customers buy features that they want in the next release of your product using play money you give them.



In the **Product Box** game customers are asked to imagine that they're selling your product at a trade show, retail outlet, or public market. They are given a few cardboard boxes and asked to literally design a product box that they would buy. The box should have the key marketing slogans that they find interesting. Ask your customer to use their box to sell you your product. You will learn what they appreciate most about your product and what they find most important.



Test Card

Test Name

Due Date

STEP 1: HYPOTHESIS

We believe that

STEP 2: TEST

To verify that, we will

STEP 3: METRIC

And measure

STEP 4: CRITERIA

We were right if