

# THE LEAN CANVAS BASICS

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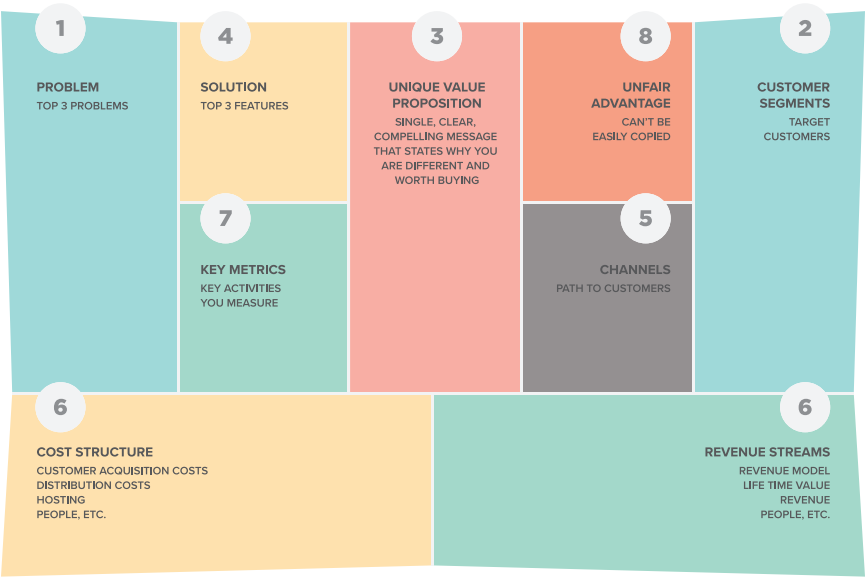
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# THE LEAN CANVAS BASICS

A “Lean Canvas” filled in with explanations of what belongs in each section:



## ...DO IT ALL AT ONCE

Thankfully, your initial Lean Canvas isn't like a business plan that can take weeks or months to complete – your initial Canvas should be sketched in one sitting of roughly 30 minutes.

## “I DON'T KNOW” IS A LEGITIMATE ANSWER

Your initial Canvas is about speed, so instead of over thinking a given section (e.g., “Unfair Advantage”), jot

down your best guess or just come back to it later. This Canvas isn't a stagnant document and it will most certainly change over time, so no need to linger on the tough spots at the outset.

## **ONLY FOCUS ON THE NEXT STEPS**

A business plan often tries too hard to predict the future, but we know you don't have a crystal ball. Fill in the sections based on where you are and what you know right now, knowing that things will change.

## **IT ALL STARTS WITH THE CUSTOMER**

Paying customers are the end goal of creating this product, so sketch your Canvas in the proper order with the Customer Segment first.

# **1-A. BRAINSTORM POSSIBLE CUSTOMERS**

## **A. BRAINSTORM POSSIBLE CUSTOMERS**

A customer is someone who pays you for something. Sometimes a business may have users that aren't customers, like Facebook users. In Facebook's case, their customers are advertisers, and the product is attention from Facebook users.

Identify some possible groups of people who would pay you for your product.

## **B. CREATE SMALLER SEGMENTS OF POTENTIAL CUSTOMERS**

At the end of the day, you may want to have a product that appeals to everyone. But for now, you can't build, design, and promote a product for everyone. Every business starts with a small group of customers, so it's best to target a specific group.

For example, you may have determined that smartphone users that like to exercise are among your possible customers for fitness app. Smaller segments could be:

- Teenage Males
- Middle-Aged Single Moms
- Elite Athletes

When segmenting, think about specifics. What does this group look like? What do they do for a living? Who do you know personally that fits into this group? How much available income does this group have? How do they like their steaks (or do they like steak at all)?

## **C. FILL OUT A CANVAS FOR EACH CUSTOMER SEGMENT**

You'll find that each customer segment will usually have a different business model so it's imperative to sketch a different Canvas for each one. Start with the top 2-3 that you feel are the most promising or that you understand the best.

## **1-B. IDENTIFY PROBLEMS YOUR CUSTOMER SEGMENTS FACE**

You'll notice that #1 on the Canvas includes both customers and problems. This is because the two depend on each other and lay the foundation for the rest of the Canvas.

### **A. LIST TOP 3 PROBLEMS FOR YOUR CUSTOMER**

Pick a customer segment and describe the top 1-3 problems that you could potentially solve for them.

### **B. DESCRIBE HOW YOUR CUSTOMER ADDRESSES THE PROBLEMS**

Your customer segment is still surviving in spite of their problems. How are they coping? Sometimes they may go to a competitor to solve their problem. Before the GPS, "being lost" was a problem that people

solved with maps or by asking for directions – you may not have a direct competitor yet.

Some problems may not have a readily available solution, so your customer may address it by doing nothing if the problem is not too painful for them.

### **C. IDENTIFY OTHER USERS (NON-CUSTOMERS)**

Sometimes there will be people who interact with your customer or product, but don't pay you. These people are "users". If your product is a birthday cake, then you may only have one customer (a parent of the birthday boy/girl) but everyone who eats the cake are your "users".

### **D. GET EVEN MORE SPECIFIC WITH YOUR CUSTOMER SEGMENT**

Because you are not trying to target everyone (nor could you), it's important to get as specific as possible in targeting the customer segment that would buy your product first. We call these customers "early adopters".

To define who your early adopters may be, think about your customer segment and their problem at the same time. For the fitness app example, if you are thinking about the "teenage male" segment, and their top problem is that they are unable to build muscle, then

your early adopters might be teenage males who are:

- Prolific App Users
- Underweight / Petite
- Fitness-Minded
- Seeking answers on how to build muscle

## 2. UNIQUE VALUE PROPOSITION

*“Unique Value Proposition: A single, clear, compelling message that states why you are different and worth buying.” – Steve Blank*

Remember when you described how your customer segment currently addresses their problems (you didn't skip that, right?)? If you're going to offer another solution, you have to give them a reason to stop addressing their problems as usual and start addressing them with your product. That reason is your Unique Value Proposition (UVP).

The trick is, you need to be able to provide them with your UVP in less than eight seconds – that's the average time that new visitors will spend on your landing page online. A good UVP will spark their interest and keep them from leaving your website.



This makes the UVP both one of the most important sections and one of the most difficult. But fortunately, like the rest of the Canvas, you don't have to nail it on the first try.

## **BEING UNIQUE IS EASY – SO MAKE SURE YOU HAVE VALUE**

“Unique” and “useful” do not always go together. To make sure that your uniqueness is valuable, build your UVP directly on the #1 problem you hope to solve for the customer. If the problem is worth solving, then you'll offer plenty of value with a fitting solution.

## **TARGET EARLY ADOPTERS**

While it's okay to hope that lots of people buy your product, trying to write a UVP that targets everyone will make your message unremarkable and rob it of any uniqueness. Instead, think about those early adopters and write a UVP that appeals specifically to them.

## **COMMUNICATE ONE OR TWO SPECIFIC BENEFITS**

A good UVP will tell your early adopters about one or two fantastic things that will happen to/for them after they use your product. These fantastic things, or “benefits”, must be “must-haves” in the eyes of your customer segment.

## **ANSWER THE WHAT, WHO, AND WHY OF YOUR PRODUCT**

Be sure your UVP lets the reader know what your product is (or does) and who your customer is. The “Why” can be in a subheading, if necessary.

## **REFERENCE COMPELLING UVPS**

Think about some brands that you admire. They probably have a UVP that works well, so visit their websites to pick apart what makes their messaging effective.

## **CREATE A HIGH-CONCEPT PITCH**

A high-concept pitch makes use of concepts that your customers are already familiar with and combines them to describe your idea. This can be a useful exercise in learning to communicate your venture, but needs a bit more explaining (like an elevator pitch).

Examples:

- YouTube: “Flickr for Video”
- Aliens (movie): “Jaws in Space”
- Dogster: “Friendster for Dogs”

### 3. SOLUTION (PRODUCT)

This step requires some extra caution. Going back to the beginning of this document, note that the main reason a new product fails is because the customer doesn't want it, and the entrepreneur is blinded to that fact until it's too late!

Who wants your product, how you'll distribute it, and if it all works are only hypotheses at this point and have yet to be tested. Therefore, attaching yourself to a particular product/solution isn't wise. Instead, simply sketch out the top features or capabilities next to each problem.

*Bottom line: bind a solution to your problem as late as possible.*

### 4. CHANNELS

Determining the channels you will utilize answers this question: "How will my customers find out about my product?" Channels are essentially paths to communicate with your potential customers. SEO, social media, eBooks, advertisements, and cold calling are all channels.

Channels are just as critical to the success of your business as the product is! That's why you'll identify, build, and test different channels from day one. There are tons of possible channels you could use, but some of them may not work with your startup. Others may work after you gain traction, but aren't viable right now.

Here's an overview of channels:

### **FREE'ER VERSUS PAID**

There are no truly free channels. Channels like SEO, social media, and blogging may not make you pay up front, but you'll have to invest payroll into their development and upkeep. Calculating ROI on these channels is complicated because they continue to work for you after the initial investment, e.g., a blog post that continues to get views for months or even years after it was written.

Paid channels are a little more straightforward. Money is exchanged in return for views, clicks, likes, shares, or otherwise attention for your message. A common example of paid channels is using search engine ads like Google AdWords.

There was a time where search engine marketing was impactful across the board, and you could pay Google

a mere five cents for every time someone clicked on your link in the search results. However, those days are long gone for many products and the cost-per-click has become much more expensive, depending on the search keywords you are targeting.

## **INBOUND VERSUS OUTBOUND**

When a customer finds your message organically, it's going to be through an inbound channel like a blog, an eBook, white paper, or webinar. SEM, print/TV ads, trade shows, and cold calling are all examples of outbound marketing – you bringing your message to the customer.

It's hard to justify paying for outbound messages when you are still testing your UVP. Wait to get “techcrunched”, tap influencers, or seek other forms of PR until you have a tested and solid UVP and can count on effective messaging.

## **DIRECT SALES VERSUS AUTOMATED**

Direct sales involve face-to-face interaction with the customer. Direct selling is effective when you are testing your business model because you can get feedback from your face-to-face interactions. We'll talk more about that shortly.

While selling manually may be the best option when

you're starting out, it could lose efficiency as you grow if compensating your sales force costs more than the lifetime value of your customers.

## **DIRECT VERSUS INDIRECT**

There are many other companies that have a larger audience and more attention than yours does at this stage. The mistake some startups make is to attempt to partner with these larger companies in order to help sell a new product.

The problem is that the product hasn't been tested and proven viable yet, so the startup won't receive the right level of attention sales reps to make the partnership beneficial. Understandably, a sales rep doesn't want to risk their sales quote with an untested product

*Bottom line: first sell yourself, and then let others do it.*

The same principle applies to external salespeople. While an outside salesperson can probably outsell you, only you can create the sales plan.

## **RETENTION BEFORE REFERRAL**

Referral or affiliate programs are very effective in spreading the word about your product, but only if you have a product that's worth spreading. This is why

you should focus on retaining your first customers before focusing on referral. In the words of Seth Godin, “Build a remark-able product.”

## **BUILDING THE IDEAL EARLY CHANNEL**

To maximize your ability to learn, grow, and reach new customers, we recommend content marketing as your channel.

Content marketing starts with content that is helpful to your customers and uses search engine optimization (SEO) and social media to help distribute it. Instead of trying to create a perfect advertisement for an outbound channel, you can incrementally test different pieces of your problem and solution hypotheses via blogs, white papers, and webinars.

Content marketing takes time and isn't free, but once it gets rolling it can turn from an expense into an asset, possibly even becoming your “Unfair Advantage”.

## **5. REVENUE STREAMS & COST STRUCTURE**

Figuring how much to charge and how to collect the money is one of the most risky sections of your

Canvas. Therefore, it's good to start testing it early (just like the other sections).

Some startups avoid pricing because they don't think the product is ready, or perhaps they want to avoid unnecessary friction with their customers during the initial learning phase.

However, we believe that if you intend to charge for your product, it's better to be upfront about it. Pricing your product helps you set proper expectations, solidify customer commitment, start making some money, and get feedback on a very risky part of your business model.

Similarly to your UVP, pricing is both extremely tricky and absolutely important. The product's price affects your brand, positioning, and customers – not to mention it keeps you in business.

*Bottom line: your price is part of your product.*

There is a lot of science in determining a good price, but getting your starting point is more of an art than a science. A great resource for pricing is Neil Davidson's free eBook, "Don't Just Roll the Dice".

A lot of the science in pricing is in the testing. You



need to create a testable hypothesis about what might work and then experiment for a set time period. Then, validate qualitatively and verify quantitatively.

## **START WITH A SINGLE PRICING PLAN**

Trying to support multiple pricing plans means that you would be targeting multiple customer segments all at once, which we've already established as wasteful. In addition, multiple plans require you to write more code to support your plan/feature segmentation.

A new startup has yet to obtain the information or testing needed to properly group the product features into different plans or know how much to charge for each plan.

## **GO WITH A “FREE TRIAL”**

A time-limited free trial allows you to learn about and modify your pricing structure quickly, because it forces a conversion decision at the end of the trial period.

## **YOUR FIRST PRICE WILL BE FOR TESTING**

In the rare case that you are solving a brand new problem or don't have any existing alternatives to the problem, you'll have to pick a price solely based on your cost and profit margins. This is more common in Enterprise products.

In most cases, you will be solving a problem that has existing alternatives and competing products. Your customers will use the price of these alternatives and your competitors as reference points to rank your solution, so you need to position your price and solution accordingly.

*“Pricing is all about setting the right perception.” – Neil Davidson*

## **FACTOR IN YOUR COSTS**

Even though you won't nail it at first, it's important to keep in mind that your end goal with a price is to make a profit. While it's hard to accurately calculate the full costs of delivering your solution at this stage, you should at least do a back-of-the-envelope calculation based on your costs and revenue to find your break-even point.

One rule of thumb is to ensure that the lifetime value of your customers is at least triple what it costs to acquire them.

## **WHAT ABOUT FREEMIUM?**

The Freemium model was popularized by Fred Wilson on his blog, and is used by many web applications:

*“Give your service away for free, possibly ad supported but maybe not, acquire a lot of customers very efficiently through word of mouth, referral networks, organic search marketing, etc., then offer premium priced value added services or an enhanced version of your service to your customer base.”*

Freemium can be an attractive pricing structure because you don't have to worry about setting a price at first. That means you can get a lot users in the beginning and then ideally convert them to customers later. However, the reality of Freemium is much different.

While Freemium can be a highly effective model, we don't recommend starting with it for several reasons.

## **PROBLEMS WITH FREEMIUM**

### **Fewer Conversions (Or None At All)**

Many Freemium structures give away too many features and capabilities with their free plans, which means that users don't feel a strong need to upgrade to the paid plans.

This is primarily because startups don't have enough data to optimize the conversion point between their free services and their paid services. The optimal line

is drawn at a place where users will naturally outgrow the free plan at a predictable time in the future, but defining that line only can be done after testing.

### **Price Testing Takes A Long Time**

The wait time for a free user to upgrade to your paid plan – even if you nail the conversion point – is lengthy. This means more time not knowing if your price point or services distribution is effective. Even the best reports on Freemium conversion rates are in the 0.5-5.0% range, and time is your most valuable resource as a startup.

### **User Acquisition Becomes Too Important**

Lots of people love to see “FREE” on a product or service, so Freemium structures will usually get a lot of sign-ups, often causing your focus to shift from user retention to user acquisition. But unless you have a proven product, sign-ups don’t mean anything.

*Bottom line: your free users are not your customers (yet).*

### **Too Much Data**

The more users you have, the more feedback you have. If all of your users are free, it will be hard to focus in on feedback that is useful for you – given the opportunity, everyone can be a critic.

## Free Users Still Cost You

Even though free users aren't paying anything, you still have to pay for them. Some costs that need to be accounted for include bandwidth/hosting, features, support, and learning.

To help you place a value on free users, we recommend Lincoln Murphy's paper: "The Reality of Freemium in SaaS". Unless your users are adding participatory value that helps you sell your product or service to customers, then they are an expense.

Jason Cohen, author of the popular blog "A Smart Bear", recommends designating free users as a marketing expense, just like an ad-buy or trade show expense.

## HOW TO USE FREEMIUM

### If Freemium Seems Viable, Start With Premium First

Starting with a paid plan (your premium services) will allow you to begin testing price and product immediately. When you start with premium, you can immediately learn what your customers will pay for and how much they will pay for it. Then, you can downgrade your offering to a free plan later if you still think it's viable.

## **How Should The Free Plan Be Structured?**

Free plans should look like free trials, except the “trial” will be based on usage, not time. After you have tested usage patterns with a paid plan, you can design your free plan so that users will consistently outgrow it and need to upgrade to your premium services.

## **When Is Freemium Better Than Free Trials?**

A Freemium model becomes more advantageous than the free trial when the marketing draw of a “FREE” product/service becomes greater than a time-limited trial period. This can be a powerful user acquisition strategy for B2C products that target consumers looking for a quick and painless solution.

Free trials are more suitable for the B2B world because businesses usually want to work with a product’s full features and capabilities. This also relieves you of the added complexity of tracking and carrying free users.

## 6. KEY METRICS

*“Find the key number that tells you how your business is doing in real time, before you get the sales report.” – Norm Brodsky and Bo Burlingham*

Metrics are measurable units of activity that tell you how your offering is being used. Think about activities that measure usage of your product.

If you have a blogging platform, a key activity would be when someone uses your platform to write a blog post. For a fitness app, a key activity may be when a user logs a workout. For now, write down one or two of these key activities for your product.

## 7. UNFAIR ADVANTAGE

This section on the Canvas is usually the hardest, which is why we leave it for last. It's easy to get lazy on this and list something as a competitive advantage when it really isn't. Remember that if you have a good product, it will be copied. You need to have an unfair advantage in the market that no one else will have.

Imagine your co-founder steals your source code, moves to Costa Rica, and duplicates your offering with lower prices. Would you still have a business?

*“A real unfair advantage is something that cannot be easily copied or bought.” – Jason Cohen*

If you have to leave this section empty at first that's okay, but it is there to help you answer how you can make yourself different in a way that matters. Some examples of unfair advantages include insider information, the right “expert” endorsements, or personal authority.

## 8. PRIORITIZE WHERE TO START

After you have sketched a Lean Canvas for each of your customer segments, compare them to determine which Canvas you should start with. The ideal Canvas has a large, reachable market with customers who need your product and will pay a price that gives you some profit.

Here is our recommended order of importance for your selection criteria:



## **A. CUSTOMER PAIN LEVEL**

Which customer segment needs your product the most? Ideally, one or more of the top three problems you address should be “musts” for them.

## **B. ACCESSIBILITY**

It can be hard to find and utilize a good channel to interact with your customers, but it’s a key aspect of your business model. If there is already a good channel established or available for a given customer segment, you may want to go with it. It doesn’t mean that everything else will work, but easier communication will equate to quicker testing and learning.

## **C. PRICE TOLERANCE**

How much you can charge depends on who is paying, so pick a customer segment that allows you to get a great price on your product. Being able to charge a higher price will allow you to reach break-even with fewer customers.

## **D. MARKET SIZE**

Finally, think about the size of the market that your customer segment represents. It needs to be a big enough market to support your business, or at least be a stepping-stone.

*Bottom line: life’s too short to build something nobody wants.*

## **ABOUT DOC4**

Doc4 is a design studio located in Northwest Arkansas. Our focus is on clean, Mobile Responsive Web Design. We also design and develop effective and award winning Mobile Applications. Some of our more recognizable clients include the Crystal Bridges Museum, Field Agent, Cox Communications, Activision, Houndstooth Press, General Mills and Lighting Emporium.

Please contact our Business Development Manager, Michael White if you have any questions about how to use the latest technological advances to acquire more leads for your organization, attract new customers, or nurture new business. Call us at +1 479 202-8634 or drop us a line at [hello@doc4design.com](mailto:hello@doc4design.com).



*Thanks for reading*

**QUESTIONS, COMMENTS OR INQUIRIES**

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