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DIANA KANDER

Instructor's Guide



all in startup

LAUNCHING A
NEW IDEA

WHEN EVERYTHING
IS ON THE LINE

Introduction

Developing an Entrepreneurial Mindset

As a serial-entrepreneur, an investor, and a Senior Fellow for the Kauffman Foundation, I've spent thousands of hours trying to explain business concepts to aspiring entrepreneurs. But entrepreneurs only really learn valuable lessons when they witness or experience failure and success themselves. With that in mind, I wrote a novel instead of a textbook to help teach the science of startups. Within the pages of *All In Startup*, students can live the startup experience and learn these lessons without actually having to go half-broke and full-crazy.

As more and more professors started using *All In Startup* as a teaching tool, they were blown away at how quickly students read through the material and how much they enjoyed talking about it. They asked for more. They wanted activities students could do to experience entrepreneurial thinking, even if they didn't have a specific idea they wanted to pursue. They wanted questions to lead classroom discussion about the book. And they wanted more opportunities for students to experience those entrepreneurial butterflies to see if this vocation is something they really wanted to pursue.

I created this Instructors' Guide to address those requests. Inside, you will find discussion questions, activities, and other resources for teaching students how to think like an entrepreneur. It's the perfect companion guide for using *All In Startup* in your classroom.

Well...it's almost perfect. I've updated the document several times, but there's still a lot of material I'd love to add. If you create additional activities or ways to use *All In Startup* in your classroom, please let me know at dkkander@gmail.com so that I can share your experiences with the other educators. Also, please let me know if you want to be kept up to date with new versions of the Instructor's Guide, as they become available.

- Diana

Testimonials

What educators are saying

"This is a must read for anyone interested in launching a new product or business. *All in Startup* makes lean concepts more accessible through a simple but powerful allegory to which readers will easily relate. Diana Kander helps readers understand the value of the lean approach by tying it to a memorable story."

Steve Blank, Lecturer - U.C. Berkeley, Stanford University, Columbia University and UCSF

"There is seldom a read that when you start it, you can't put it down. Diana Kander has crafted such an experience that fuses an engaging story of choices, dilemmas, tradeoffs, and problems with the real-world experience of the entrepreneur. In a narrative that captures the culture and the spirit of an entrepreneur in a worthy tale of swagger, hustle and intuition, the reader will learn the lessons of the "all in" entrepreneur and build a framework to approach their own entrepreneurial pathway. Before you know it, the lessons framed in the book become your own to the extent that you will convince yourself you have always known them. I've concluded that anyone who thinks they may want to take a crack at founding a business, should read "All In" first."

Ted Zoller, Director, Center for Entrepreneurial Studies, University of North Carolina - Chapel Hill

"I just had my course review and the responses to the textbook were exceptional. Here are a few responses from the students:

"I liked how it was a story."

"The book was so great because it was interesting and straightforward."

"I really enjoyed the book and its practicality. The lessons it taught were useful to all entrepreneurs."

"Book was very interesting and helpful to read a real story."

"I loved the assigned textbook!"

"Enjoyable to read the novel type book, but also was informative too."

"I liked the 'All in Startup' book, I think the story about Owen helped explain the concepts well – made it easier to understand."

"The book 'All in Startup' was a quick, easy read, and a good way to get introduced into the basics of the class."

"All in Startup was super interesting / compelling / applicable to this class. Simplified everything into layman terms well."

I think you hit a homerun."

Troy Knauss - Entrepreneurship Professor at Wake Forrest

"This book should be required reading for anybody interested in entrepreneurship, from high school students to experienced entrepreneurs because, in contrast to the multitude of traditional, cookie-cutter textbooks on entrepreneurship, it conveys important concepts, and stages in the entrepreneurial process in an easy and entertaining way.

We're using *All In Startup* as part of our curriculum at the University of Missouri - Kansas City because this book offers a different way of explaining the elements of a business model, how they work together in a coherent way and how to test the assumptions entrepreneurs make about all aspects of their business."

Dirk Libaers - Professor of Entrepreneurship – University of Missouri – Kansas City

"I couldn't have done well in this course without your book. It made sense to the class and they really enjoyed it. Many students commented in class that it was the first time they ever used a book like that as a text. It encouraged open discussion and critical thinking which I feel is paramount versus a professor simply lecturing for an hour."

Sterling Raskie, Professor – Millikin University

"I assigned *All In Startup* because I found exceptional value in the approach that it took to learning. I felt like it met the academic objectives I was trying to achieve through a story to which the students could relate. And the students absolutely loved it!"

Dr. Sean Siebert – Adjunct Faculty – Columbia College

"Students in the class I teach have taken a sequence of classes and are required to engage customers and build a plan to make their venture real. Their comments to me about *All in Startup* were that the story brings the concepts to life and helps them better understand them. It is one thing to be introduced to the entrepreneurial process, it is another to understand and internalize it, and yet another to apply it effectively to their own ventures. *All in Startup* gets students over the chasm between knowing and understanding. Once they internalize it, they can better see how to implement the process on their own venture. They believe that indeed they can do it - they can make their venture real."

Tom Boozer – Professor of Entrepreneurship – University of Missouri – Kansas City

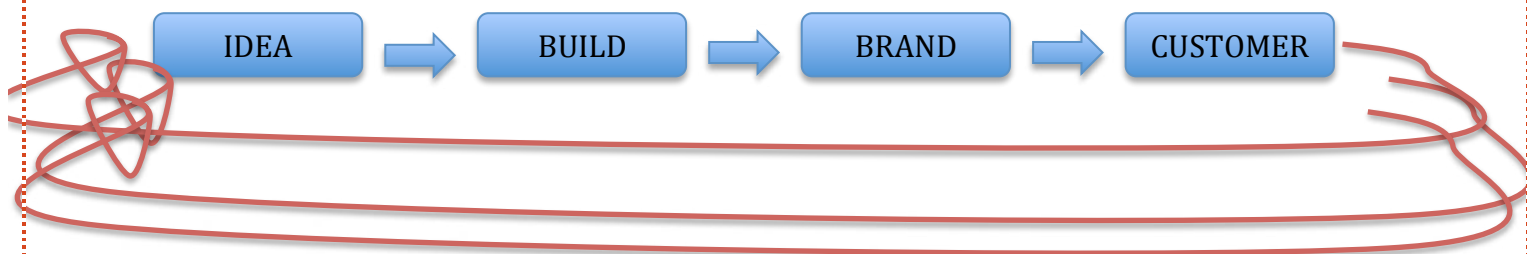
Section 1: Startups are about finding customers, not building products

Section Summary

No entrepreneur fails because they couldn't build their product. They fail because no one wanted to buy what they built.

Here's how a startup typically works:

1. An entrepreneur gets an **idea** and his mind starts racing with all the possibilities of what it could turn into, the impact it could have on the world, and all the money it could generate.
2. Next, the entrepreneur **builds** his idea. He spends a lot of time and money trying to build the most comprehensive version of it, rarely showing it to anyone because he wants it to be perfect before potential customers see it. First impressions are everything!
3. Then, the entrepreneur **brands** his idea. He develops a catchy name and a logo. He purchases a domain and builds a website. He creates marketing materials. This has to look professional, he tells himself.
4. Finally, he goes out looking for **customers** and, more often than not, strikes out big time, causing him to realize that something is wrong with his initial idea. He revisits the **idea** and starts brainstorming how to make it better. And then he repeats step one through four all over again, spending a lot of time and money, without making any forward progress.



This is the **startup loop of despair**. It can last anywhere from a few months to a few years, all before the business generates any substantive revenues.

But successful entrepreneurs know that the startup loop of despair is completely avoidable. They know that once you come up with a great idea, the very next step should be to find potential customers and determine if your product is even worth building.



Finding customers before building your product will guarantee that you will build a product people actually want by figuring out which features and benefits are the most valuable. Above all, this means your startup will actually generate revenue.

Discussion Questions

- **Chapter 1**
 - What do you think might be wrong with Owen's business?
 - Why does he feel so guilty about it?
- **Chapter 2**
 - Why do you think Sam had such a hard time getting entrepreneurs to listen to her constructive criticism? Why couldn't they hear it?
 - What did Sam mean when she told the lawn guy that his product was not his business?
 - What was it about how Owen was describing his business that set off red flags for Sam that something was wrong?
- **Chapter 3**
 - How do you think Owen's fear of failure is affecting him and his business?
 - Is he making good decisions about the business? What evidence can you point to in order to support your argument?
- **Chapter 4**
 - How is the fear Owen is experiencing in his business different or the same as the nervousness he is feeling at the tournament?
 - How does the title of the chapter: "It's How Well You Lose, Not How Well You Win, That Determines Whether You Get to Keep Playing" apply to both poker and business?
 - Can you name a time in your life when this statement rang true for you?
- **Chapter 5**
 - Sam has ideas about Owen's business, but she specifically states that she's not going to make the effort to go find him. How many times in your life were there mentors and people willing to help and all you had to do was ask?
 - Can you name some opportunities for mentorship you probably missed out on by not asking?
 - What was wrong with the way Neon Green played poker?
 - Have you ever read about or met an entrepreneur that acted the same way in business?
- **Chapter 6**
 - Why does Owen feel like he needs to adjust his style of play throughout the tournament?
 - Is he right?
 - How does this translate into the different stages of starting a business?
 - How important do you think it is to involve your spouse in your business?
 - What are the positives and negatives?
 - How's Owen doing at involving Lisa?

Activities

1. **Give away \$1 (Easy).** Ask students to go to a public place and give away five separate one-dollar bills. Before students begin, they should draft up a mini-business plan for the exercise.
 - a. Where will they go?
 - b. What kind of people will they approach?
 - c. What will they say to get the conversation started?
 - d. What is their plan for the conversation?
 - e. Out of five attempts, how many dollar bills will they be able to give away?

Ask the students to do the exercise in pairs and get them to record one another interacting with “customers”. Then ask them to do a write up after the exercise comparing what actually happened to their predictions. Also ask that they list out their lessons learned and their favorite video encounters in a PowerPoint that they will share with the class.

Some ground rules for this challenge to make it interesting:

- a. They need to approach members of the same sex. (To limit bias in the results)
- b. The people they approach must either be walking somewhere or talking on their phones. (To simulate what it’s like to interrupt customers in the real world with a product or service)
- c. They can’t tell the people they are approaching that they are doing an experiment or a challenge or anything for a class. They have to come up with a genuine reason of why they would want to give away a dollar.

I assign this challenge without any advanced lesson on what students are supposed to be learning or what they should expect. It makes the experience a lot more authentic and a stronger learning tool.

Once all the students in class present their results, ask the following questions to lead discussion:

- a. What about the exercise surprised you the most?
- b. What do you think you went wrong with your initial plan?
- c. What did you learn by interacting with your customers that you couldn’t have predicted in your business plan?

Then use the discussion to cover the following topics:

- How business plans are filled with assumptions, even if the author is really smart or has a lot of experience
- The importance of testing your assumptions and not committing to a specific plan before you’ve had an opportunity to verify your guesses
- How you can learn more about your business by interacting with customers than you can figure out by doing research on your own

2. **Sell a book to a stranger (Hard).** Send students to a public place to sell any book from their personal bookshelf for \$5 or more. Before students begin they should draft up a mini-business plan for the exercise.
- Where will they go?
 - What kind of people will they approach?
 - What will they say to get the conversation started?
 - What is their plan to make the sale?
 - How many people do they think they will need to talk to before making the sale?

Ask students to do the exercise in pairs and get them to record one another interacting with “customers”. Then ask them to do a write up after the exercise comparing what actually happened to their predictions. Also ask that they list out their lessons learned and their favorite encounters in a PowerPoint that they will share with the class.

I assign this challenge without any advanced lesson on what students are supposed to be learning or what they should expect. It makes the experience a lot more authentic and a stronger learning tool.

Once all the students in class present their results, ask the following questions to lead discussion:

- What about the exercise surprised you the most?
- Why do you think you were wrong about certain aspects of your plan?
- What did you learn by interacting with your customers that you couldn’t have predicted in your business plan?
- If they bought the book, why do you think they did it? What was their motivation?
- If they didn’t buy, what reasons did they give you?

Then use this discussion to cover the following topics:

- Approaching customers is HARD. Students will experience significant fear of failure. But once you do it a few times, it gets easier. Because it is so hard, most entrepreneurs put interacting with customers off as long as possible. But the information you can learn by interacting with customers early is invaluable to the eventual product you will build.
- Different customers have very different motivations for buying products. Understanding the specific customer segment your company is trying to attract is important because the customer segment will dictate the design and functionality of your product.
- Sometimes you misjudge your customer segment and assume they would be interested in things that they really don’t care about.
- People don’t buy products based on the product description. Those who are successful at selling their books will have discovered something about their customer and sold their book as a solution specifically for that customer. Those who are unsuccessful will have focused either on the features of the book or why they needed the sale.

Section 2: People don't buy products or services—they buy solutions to their problems

Section Summary

People don't go to the store looking for features and benefits. They don't walk down the aisles or surf the web looking for the longest lasting this or the least expensive that. They have problems that need solving. They shop because they can't get a stain out of their carpet, they can't get a hold of their kids when they are out at night, or they are worried about having enough money for retirement. People look for things that can solve these problems, and they will pay money for them. These people are called customers.

The trouble with customers is that they are totally irrational and unpredictable. You can't assume that because you've diagnosed a problem, customers will agree with your assessment. Or, if they do consider it a problem, you can't assume that it's the kind of problem they'd pay money to solve.

For every Instagram or Pet Rock, there are hundreds of thousands of failures that never made a dime. For every Facebook or Snuggie, there are hundreds of thousands of zombie startups lurching around, mostly dead, clumsily bumping into one another at networking events.

The only way to find out if your customers have a problem worth solving and whether your idea solves that problem is to directly interact with them.

Discussion Questions

• Chapter 8

- Can you name some vanity metrics not mentioned in the book that could incorrectly lead an entrepreneur to believe that their business was succeeding?
- What steps would you take to figure out if your company solved a real problem?
- What is the core difference in skill sets you need to launch something in an established, large company versus in a startup?
- Owen thoughtfully launched his company after writing a well-researched business plan. What was wrong with this approach?
 - What did he fail to do?

• Chapter 9

- What small bets should Owen have made in his business to make sure he wasn't putting his whole life savings on the line?
- In your own life, what small bet can you make to make sure your chosen career or major is a good fit for you?
- Can you explain the phrase – “winning at this tournament wasn't about luck, it was about reducing the number of times she had to get lucky”?
 - How does this apply to your own life?

• Chapter 10

- Owen is an expert biker. How did he allow that bike accident to happen?
- Do you see any relationship between this bicycle accident and Owen's transition from business consulting to starting a new company?

• Chapter 11

- For most entrepreneurs, dealing with a startup that isn't growing as planned is the first time in their life that they can't think or work their way out of a problem. Have you ever experienced a setback like this?
 - How did you handle it?
 - What do you think Owen is doing wrong in the way that he's dealing with the setback?
- Many entrepreneurs think that customers are always interested in a cheaper product. Can you name some things that you've purchased where you didn't want the cheapest option?
 - Why was that the case?
- What do you think are the 5 riskiest assumptions Owen made in his business plan?
- Can you name 3 products you've seen that didn't do well because they were only solving a headache problem?
 - Why didn't people care?

• Chapter 12

- Can you name something in your life that you are hoping will happen?
 - What small steps can you take to reduce your need for luck?
- Have you ever had someone pitch you an idea for a new business or product and you weren't 100% honest in your feedback?
 - Were you trying to spare their feelings?
 - What other motivations were changing your responses?

- How could they have asked their questions differently to get your honest feedback?
- Explain the many ways in which a selling conversation is different from a learning conversation?
- Have you ever had a migraine level problem you tried to solve by buying a product?
 - Can you name the steps you took to try and find a solution and the types of conversations you had with people about it?
- **Chapter 13**
 - Have you ever been desperate for something to work?
 - Did you find yourself making bigger and bigger gambles, hoping to get lucky?
 - If you were starting from scratch and had more time, would you have made the same moves? Or made smaller bets to reduce your need for luck?
- **Chapter 14**
 - Do you think Owen did a good job of explaining to Lisa what was wrong with ReBicycle and what he needed to do to improve it?
 - What would you have said differently?
 - Do you think Lisa's complaints about being the spouse of an entrepreneur are legitimate?
 - What would you do to safeguard your relationships with the important people in your life from similar complaints?

Activities

1. **Create \$20 in Value (Medium).** Ask for a volunteer who has \$20 in cash, then once that person is at the front of the room and has their \$20 in hand, ask for a volunteer who wants that \$20 in cash.

Tell the student who is trying to get the money (the “Business”) that they have 3 minutes or 3 offers, whichever occurs first to create \$20 of value for the other person (the “Customer”). I.e. They get to make 3 offers to get the \$20. All offers have to be for things the Business is actually willing to do or has the legal right to sell.

If a “sale” is made, they must exchange the money. This is not a hypothetical exercise. This is an actual transaction.

Usually, the “Business” will make 3 offers and fail to make a sale.

After this happens, you can give both participants a round of applause and explain to the class that ideas originate from three parts of their body: Their gut, brain and heart.

The gut is an instant visceral reaction. It’s the part of your brain that screams, “I’m hungry! What’s the closest thing that resembles food.” The brain is more logical, but still focused on getting what it wants. Someone using their brain tries to put themselves in the shoes of the customer and figure out what it would take to get their money. And the heart is a place of pure caring. It actually wants to create value for the other person whether or not it gets what it wants. It’s the muscle you use when thinking about doing something nice for someone you love.

Once you’ve explained the difference, ask the student who made the offers whether they made their first offer with their gut, their brain, or their heart. (note: often times people think they used their heart when they really didn’t. For instance, they ask for the money to donate to a charity. They think that’s a noble cause, but it’s really them using their gut or brain to try to appeal to an emotional part of the other person to make them feel like they have to give. They have no idea if that person even cares about the cause they picked.) Usually the first offer is almost always made with the gut. Then repeat your question with offer two – did it come from the gut, the brain or the heart? And again with offer three.

Once you establish that all three offers were made with either their gut or their brain, ask the student making the offers to try just one more time to create value for the customer, but this time they need to do their best to use their heart. Ask them to dig deep and try to figure out how to create real value for the customer. How to make their life better, whether they get the money or not. To do what they need to figure out what would actually change the customer’s life for the better.

This is often the first time in the whole exercise that the student making the offers ask the customer any kind of questions about what they really care about or about problems in their life. This is an important point to bring up to the class. The best way to create value is to understand

the customer by asking them about what's important rather than trying to guess. And often times, your guesses for solutions, no matter how educated, won't create enough value for customers to care!

Once the exercise is over, ask the following questions of the class to lead discussion:

- a. What about the exercise surprised you the most?
- b. What is the best way to figure out how to create real value for customers?
- c. If you were a bank, how would you go about creating new products and services in a way that guaranteed you were creating value?
- d. What is the danger of starting a business without focusing on creating value for customers, but instead focusing on the product you are creating?

You can watch a video of me doing this exercise here:

<http://www.youtube.com/watch?v=pyKjV9FLlyg&t=4m13s>

2. Interview a startup about their target customer (Easy). Ask students to find a local startup that's still in the early stages of development (pre-revenue) and interview the founder about their target customer. Because of the nature of the interactions in this challenge and the difficulty for students to reach enterprise clients for interviews later, I recommend students find local startups that target consumers.

Students should use the following questions as a guide when interviewing the entrepreneur, and come up with some additional questions of their own.

- a. Who are the target customers? Please be specific.
 - i. Where do you find groups/lists of these people?
- b. What is their problem?
 - i. Is it a migraine?
- c. What are they currently doing to fix the problem?
- d. On a scale of 1-10 how much does this problem affect their lives?
- e. What are some of the bigger problems they are dealing with?
- f. Do they have a budget allocated to fix this problem?

Once the students get a clear picture of who the entrepreneur thinks their customer is, they will go out and find 3-5 of the target customers the entrepreneur described and interview them, asking the same questions, to determine whether their answers line up with the entrepreneur's assumptions. I usually don't recommend telling the entrepreneur about the second step of the exercise because it seems to make them nervous and puts them on the defensive.

Once both sets of interviews are complete, students should make a PowerPoint presentation comparing the entrepreneur's predictions with what they discovered when talking to actual customers.

Then use the presentations to lead into the following discussions:

- Why do the entrepreneurs have mistaken assumptions about their customers?
- Are they solving a real migraine problem?

- Why is it important to engage with customers directly at the very beginning of your startup, before you commit to a specific direction?
- Why is it important to have a very specific customer target vs. trying to sell to everyone who could benefit from the product?
- How interested were customers in a potential solution to minor, headache type problems?
- How interested were customers in a potential solution to serious, migraine type problems?
- Do you think the entrepreneurs interacted with their customers enough at the beginning of their idea before starting to build the product?

3. **Making money through affiliate programs (Hard).** Note: this activity should take a few weeks. Students can work on it outside of class to reinforce what you are talking about in class.

Have students break out into teams of 2-4 and ask each team to find a specialty product on Amazon. It's better that they find specialty products that are niche. Once they pick a product, the students will create an affiliate account on Amazon and try to sell the product through a simple site.

Here are the technical items students will need to know.

- Students can set up an Amazon affiliate account here: <https://affiliate-program.amazon.com>. It's really fast and easy to do.
- Students can create a simple landing page (one page website) in under 30 minutes by using either of these programs: <http://quickmvp.com> or <http://unbounce.com>. They don't need to have any programming or website experience in order to use the sites.

Once students have set up a landing page and their affiliate account, they need to start driving customers to their site.

I like to let them try it out on their own for a few days before discussing as a group how to improve results. Then I lead the following discussion to help their progress:

- The more you narrow in on your target customer, the easier it will be to find them on social media and online forums, and the easier it will be to target online ads. Ex. Fans of U2 are easier to find than people who like to listen to music.
- If you can schedule some phone calls or in person interviews with your target customers, you will get a wealth of information about what kind of products they buy and why they buy them, so that you can confirm whether you picked the right target customer.
- The more you interact with your customers and understand the real problems they are dealing with, the easier it will be to create messaging that draws them in and helps make the sale.

This is a really powerful exercise that teaches students about how hard it is to get potential customers' attention and get them interested in your product. If they select their Amazon product carefully, and chose an item that solves a real problem, they will have a much easier time generating sales.

I like to run this activity as a competition and award some sort of prize to the team that generated the most amount of revenue for their product and a secondary prize to the team that learned the most about their customers.

Section 3: Successful entrepreneurs are detectives, not fortunetellers

Summary

Developing a business model that makes money is not a creative writing exercise. You can't just put your best guesses down on paper, wait for a bank or investor to believe your story, and then start executing on your plan. Unfortunately, no matter how smart you are, you can't predict the future.

What separates real entrepreneurs from daydreamers and wanna-preneurs is the search for facts. Successful business owners understand that their initial ideas are filled with a number of assumptions, many of which, if guessed incorrectly, could change the entire trajectory of their business. The only way to determine whether your guesses are right is to test them in the real world.

Think that you can sell your product online rather than with a sales force? Test it. Think that you'll be able to find a huge partner that will distribute your idea for you? Test it. Think you can charge \$49.99? Test it!

Don't waste time debating with investors, partners, or employees whether your guesses are right or wrong. Instead, spend the least amount of time and money gathering evidence that can prove or disprove your assumptions.

Discussion Questions

• Chapter 15

- To what extent would you be comfortable bending the truth to find out if customers were really interested in your product? (Like Owen pretending to work at a Shimano.)
- Owen encountered some people who weren't very interested in talking to him. How would you have approached the bike shop customers?
 - What would you say to get them to trust you and open up?
- What questions do you think Owen failed to ask to figure out if price was a problem or to uncover other problems customers had in the bike shopping process?

• Chapter 16

- Why should you never ask "would you" in a customer interview?
- Why is it a bad idea to ask yes/no question when trying to diagnose a problem?

• Chapter 17

- What do you think of Owen's interviews so far?
- If you were him, what conclusions would you draw?
- What are the implications of those conclusions?
- If you were Owen, what else would you try before making any big decisions?

• Chapter 18

- What do you think about Owen's plans for a physical store?
 - Is it a good idea?
 - What would you do if you were in his shoes?
- What kind of toll is entrepreneurial life taking on Owen's marriage?
 - What steps would you take at the beginning of a new company to make sure that didn't happen?
- Have you ever had a situation where you kept going because you didn't want to admit failure?
 - What was the result?

• Chapter 19

- Owen played the pair of Kings because he had a strategic advantage and, even if bad luck struck, his potential losses would be limited to \$20,000. What can Owen do at ReBicycle to minimize the amount of luck he needs?

• Chapter 20

- Why is it important that your company solve a problem for customers?
 - What challenges will you have to deal with if it is merely a nice product to have?
- Sam tells Owen that he needs to think about what kind of business he wants to have. What kind of business do you think you want to have? If any?
 - Do you want employees?
 - Do you want to try to grow a publicly traded company?
 - Why?
- Describe a time when you think you did a good job facing failure or rejection. What did you learn?
- Why do you think being able to deal with setbacks is one of the greatest strengths of successful entrepreneurs?
- Why is it important for Owen to talk to more people?
 - What could he learn?

• Chapter 21

- What was the difference between the way Sam interviewed potential customers about Flybaby and the way Owen conducted his interviews about ReBicycle?
- What was the difference between the way Sam and Owen reacted to being wrong in their initial assumptions about Flybaby and ReBicycle?
- **Chapter 22**
 - How do you think the title of this chapter, “Luck Can Be Engineered, if You Take Emotion Out of The Equation” applies to ReBicycle?
 - What should Owen be doing differently?
- **Chapter 25**
 - If you were Owen, how else would you find potential customers to interview?
 - Where would you go?

Activities

1. **The Wallet Challenge (Easy).** Find someone in the class who is looking to buy a new wallet and find out why that student isn't satisfied with their current wallet. After this, split the rest of the class into 3-5 groups. These students will be asked to make a new wallet for the student in need. Make sure this student has some cash in order to purchase a new wallet.

The groups will be provided with scissors, construction paper and duct tape. They are not limited to these items, and they can use whatever they have on them in terms of material, strategies and design to build the wallet. They are not limited to how many wallets they can create. And they are not limited to what kind of interaction they can have with the "customer". Their only limitation is that they have five minutes to make the wallet. Each team will give their wallet a cash value and offer their wallet to the potential customer.

Once the five minutes are up, give the students up to 30 seconds to present each wallet to the student in need. The student can choose to buy one of the wallets or to reject each wallet. Keep in mind that some groups might try to win the potential customer over by putting extra "perks" in the wallet, such as cash or coupons. Make sure that the wallet is the only item that can be exchanged. Once a wallet is rejected, the customer has to say why they turned down the wallet.

The goal of the exercise is to help the students understand that they spent their entire 5 minutes building something the customer was never going to buy. They felt like they didn't really have time to do anything but build the product because 5 minutes isn't very long, but I've seen companies act the exact same way with hundreds of thousands of dollars, even millions of dollars, and over a year to create something. They say, we don't have time to test or interact with customers, or go back and start over with our plan, we're under a tight deadline to get product out!

So now that all the teams understand their mistake of just starting to build and not interacting with the customer enough, ask them what kind of experiment they could have run to make sure the customer would find value in what they were creating?

We are trying to get them to say the following things:

- prototype
- presell a concept
- draw it on a piece of paper and get the customer to approve it.

You can find a video of me doing this exercise here:

<http://www.youtube.com/watch?v=pyKjV9FLlyg&t=15m13s>

2. **ReBicycle Interviews (Easy).** Ask students to go out and interview potential customers for ReBicycle. They should talk to at least 20 people and be able to answer the following questions:
 - a. Is price a big problem in specialty bike stores?
 - b. Who should be the target customer for ReBicycle?
 - c. What is the migraine problem ReBicycle can solve for them?
 - d. What are their top problems in the bike shopping process?

After conducting their interviews, students should put together a presentation of how their results compare to Owen's results. Do they agree or disagree with his conclusions? They should also list out the questions they used.

After their presentations, lead the following discussion:

- How did you get prospective customers to open up?
 - Was it easy or hard?
- What interviewing techniques worked well for you?
- What didn't work as well as you had hoped?
- Do you agree with Owen's analysis after conducting these interviews?
- What would you do if you were Owen and owned ReBicycle?

3. 5 Whys with an Entrepreneur (Medium). Students will use this exercise to try to uncover a migraine problem worth solving with a local entrepreneur. They will find a local entrepreneur that has a business up and running (meaning they are generating at least \$100,000 per year in revenue) and interview them to try and diagnose a migraine level problem.

They will ask the entrepreneur about their top concerns in the business. Are there two or three pesky problems they can't seem to solve? Have they hired a consultant to try to solve anything? Have they purchased software to try to solve something? Do they have to pay someone to do some sort of manual work that they think could be done some other way?

The goal of the exercise is to get the entrepreneur to articulate a few things that frustrate him/her and then use the 5 whys exercise to diagnose the root of the problem for each one. The 5 whys is simple. Once they articulate a problem, you ask them why they think it's a problem. Then, once they give you an answer, you ask why again. You try to do this 5 times and hopefully by the 5th why, you will get to the heart of whatever was causing the original problem.

Here's an example of applying the 5 whys to a conversation with someone whose car won't start:

Them: My car won't start. (The problem)
You: Why do you think that is?
Them: The battery is dead.
You: Do you know why?
Them: The alternator doesn't seem to be functioning.
You: Why isn't it functioning?
Them: I think the alternator belt is broken.
You: Why do you think the belt broke?
Them: It's really old and should have been replaced a while ago probably.
You: Why didn't you do that?
Them: I guess I just forgot. There's all kinds of maintenance items I've failed to do to this car. (Root cause)

The student's objective is to try to find a painful problem for which the entrepreneur:

- Knows he/she has a problem
- Has tried to solve the problem in different ways

- Has dedicated money to solving the problem

Not everyone in class will be able to find a migraine problem, but hopefully everyone will at least gain valuable experience in interviewing potential customers.

See the video link in the supplemental materials for additional guidance on conducting interviews.

After their presentations, lead the following discussion:

- How easy was it to uncover true migraines?
- What is the difference in behavior in individuals who have a migraine problem and those that don't? How talkative were they? How much did they want to share? How many different things had they tried to solve their problem?
- How differently do you think the conversation would have gone if you were trying to sell them something? Do you think they would have opened up as much as they did?
- For those that found migraines, how easily would it be to sell them a solution?
- For those that did not find migraines, how easy would it be to sell them a solution for one of their headache problems?

4. **10 Trades exercise (Hard).** Students will go to a local neighborhood with \$1. They will then go to ten different homes attempting to trade what they have for something new at each house. Ex. At the first house, they will attempt to trade the dollar for something. And then they will take their new item and attempt to trade up for something better at the next house. They will have 10 attempts at making trades. Their goal is to convert the \$1 to as much value as possible.

Before they go up to each door, ask the students to mark down in a journal whether or not they think they will be able to make a trade at this door and what is the approximate value of the item they will receive.

This can either be an individual exercise or a team challenge.

Here's a great video of someone doing this challenge for inspiration:

<http://www.fearbuster.com/2013/06/11/rejection-94-grow-a-dollar-10-times/>

Students who succeed at this activity will figure out how to first interview the individuals they are talking to for potential problems and then find an opportunity to offer their item as a solution to one of those problems. This is as much of an interviewing exercise as it is a sales lesson. Trying to disarm a "customer" with non-leading questions will significantly increase one's chances for success.

Students will also learn that it's really hard to predict what customers will do, especially if you are operating in an unknown environment (similar to a startup). Some roads are just dead ends. But that's ok, because the very next door that they knock on could lead to a great opportunity.

Ask each team to put together a PowerPoint explaining the progression of their 10 attempted trades.

Then after their presentations, lead the following discussion:

- What did you learn about approaching strangers from this challenge?
- Was there a particular interaction that yielded greater results than others? Why?
- What was your most successful trade and why do you think it happened?
- How well did you predict whether you would be able to make a trade? How accurate were you at predicting the value of the item you received?

Supplemental Resources

- Customer Interviews: What do you ask? With Justin Wilcox.
<https://www.youtube.com/watch?v=RNwX0-KJfeo#t=13>

Section 4: Successful entrepreneurs are luck makers, not risk takers

Summary

Most people assume that successful entrepreneurs are a lot like professional poker players – gamblers who take huge risks with their capital. The analogy is a good one because successful entrepreneurs and professional poker players do have a lot in common, but it's not what you'd expect. In reality, neither views themselves as a gambler or a risk-taker.

Instead, they have learned how to minimize risk and generate luck. They do this by making a series of small, calculated bets to test their assumptions and find new opportunities. Each small bet is something they can afford to lose because it's a small investment of time or money. Eventually, these strategic bets yield opportunities that both professional poker players and successful entrepreneurs will use all of their resources to exploit.

To the outside world it looks like they just get lucky a lot, but to the trained observer, they only go all in when they know they have the best chance of winning.

Discussion

- **Chapter 26**
 - When Owen was conducting his interviews, did he follow the rules of interviewing spelled out in this chapter?
 - Are there any rules listed that you disagree with? Why?
 - How did Sam do compared to Owen?
 - What did she learn from this interview?
- **Chapter 29**
 - Did Shawn Malloy articulate a migraine problem?
 - How do you know?
 - If you were Owen, what steps would you take next?
- **Chapter 31**
 - What do you think of the questions Owen came up with?
 - Are they objective? Open-ended? Likely to reveal a migraine?
 - Are there any questions you would have asked?
 - What could be the potential problem of having Stephanie make the calls?
- **Chapter 34**
 - What's Owen's new Ultimate Customer Action?
 - What experiments would you run to prove whether you could get customers to perform the UCA?
- **Chapter 36**
 - Why do you think fear and inaction are the greatest threats to your business idea?
- **Chapter 37**
 - How did Owen demonstrate that he was on tilt with ReBicycle? That he wasn't thinking straight?
- **Chapter 38**
 - Has Owen found a migraine problem? How do you know?
 - What other evidence would you want if you were Owen?
- **Chapter 42**
 - What do you think of Owens actions after he got back from Vegas?
 - Was there anything you would do differently?
 - What do you think of Lisa's advice about small bets? Was it right?
 - How did Owen get Lisa more invested in the company?
 - Did Owen prove his Ultimate Customer Action?
 - What other parts of his new business model do you think he still needs to test?
- **Chapter 43**
 - Was Owen right to turn down the investment offer? Why?

Activities

1. **Experiment in your life (Medium).** Use the experiment guidelines and worksheet to run an experiment on your life. Ask students to think of something that they want to improve in their life – examples include – getting to the gym 3 days a week, read a book they've been putting off, or meditate once a day for a week. These are goals they've established but had trouble reaching on their own using just willpower. It can also be a behavior they are trying to change in another person. For instance, sometimes people want to run experiments to see what they can do to get their kids to turn off the lights when they leave a room.

Next, we are going to ask them to run an experiment to see if they can improve their ability to accomplish the goal. For instance, if I have trouble getting to the gym 3 times a week, I can try to run an experiment to see if having someone meet me there will increase how often I go. Or if I don't want to eat junk food after 8pm, I can try throwing out all the junk food in my house to see if I can improve my performance.

Ask students to read the below instructions on the elements of an experiment and fill out the attached worksheet. Go over the worksheets in class to make sure each section is clear and fits the parameters. For instance, is their hypothesis a clear if/then statement? Are the logistics of their experiment going to actually help them prove their hypothesis true or false? Have they clearly articulated what steps they are going to take if the experiment works or doesn't work? What are they going to try next?

Once they have a week or so to conduct their experiment, you can lead a class discussion:

- How did this approach of experimentation help you accomplish your goals vs what you were doing before?
- How could you apply this process in your job (if you have one)?
- How does this approach change affect your mindset about what's possible and what you can improve in your life?
- What were your biggest lessons learned in your experiments?
- Did you make any assumptions that were incorrect?
- How does making the wrong assumptions and finding them through experiments help you get to your end goal faster?

NAME

DATE

KANDER

EXPERIMENT ONESHEET

GOAL

What is it that we're trying to learn? Or what are we trying to prove? What are the riskiest assumptions we've made?

HYPOTHESIS

Our hypothesis is a statement we're trying to prove true or false through the experiment.

SUBJECT

Who is our customer really? How do we screen them into the experiment?

LOGISTICS

How are we going to conduct our experiment? What's the time period? Who will carry out the experiment?

PASS FAIL

Our criteria must include some type of currency the subject gives up to prove whether our hypothesis is true.

NEXT STEP

What is the plan of action we'll pursue regardless whether the hypothesis is correct or incorrect?

LEARNING

What is the key learning we got from this experiment?

IF THIS THEN THAT

PASS Y/Z

FAIL X/Y

PASS

FAIL

Instructions for the Experiment Onesheet.

To run a good experiment, you need to determine and document these five elements before you begin:

a. The Goal - What is it that you're trying to learn? Or what are you trying to prove? What are the riskiest assumptions you've made about your idea? For Owen, his riskiest assumption was that people would buy half-priced, used bicycles online.

b. The Hypothesis –Your high school science classes taught you what you need to know for this part. This is a statement that you're trying to prove true or false through the experiment. The result will be a “yes” or a “no” so you need to phrase your hypothesis appropriately.

For example, a good hypothesis would be based on this setup: “If I do this action, then this outcome will happen.”

The key is to make sure that your Hypothesis helps you get closer to the Goal you outlined above and reduce the risk of your riskiest assumption. The hypothesis can help you test whether you have identified the right customer segment, whether your target customers actually have the pain point you think they do, whether they perceive enough value in your solution to buy it, whether your solution actually solves their pain point, whether you've identified the right channels to target your customers, whether your supplier cost estimates are accurate, whether you've chosen the right price point for your product, etc.

The biggest mistakes in putting together a hypothesis include 1) Creating a hypothesis that isn't measurable and lacks a clear beginning and end (ex. “People want to eat healthier”); 2) Creating a hypothesis that isn't about a specific group of customers (ex. Everyone wants a car that gets at least 30mpg); 3) Creating a hypothesis that doesn't help you reach your goal (ex. “If I send this survey to 100 people, 10% will fill it out”); or 4) Creating a hypothesis that isn't refutable, meaning that it's difficult or impossible to prove it false (ex. “Restaurants want more customers”).

Some example hypotheses Owen could have created:

“If I put up a landing page to sell half-priced, used bicycles, then 5% or more of the website visitors will preorder the bikes.” – Testing value

“If I set up a booth at a bike race for one day, I will sell at least 10 bicycles” – Testing customer segment

“If I spend \$500 on facebook ads targeting people with cycling listed as an interest, at least 5 people will click on the buy button and enter their payment information” – Testing customer segment and marketing channel

“If I call 20 bike shop owners, at least 3 will come to my shop for a one-hour meeting to find out more about my bikes and whether they want to sell them in their store” – Testing distribution channel.

c. The Subject - Who are you targeting with the experiment? How are you filtering who will participate and who won't? For instance, if Owen puts up a landing page to see if people interested in road bikes will want to buy his bikes, what kind of information is he gathering on the landing page to make sure that the right people are seeing his messaging before he decides whether it's working or not?

Tip: If you are having trouble limiting your target subject for the experiment, try first listing out people who wouldn't fit into your target subject. I.e., for Owen it's people who want to buy a \$100 bicycle at Walmart or Target or perhaps people who are interested in roadbikes but have never actually purchased one because they think they are too expensive.

d. The Logistics – How are you going to conduct your experiment? What's the time period? How do we know when the experiment has started and has finished? How many people will you target? Who will carry out the experiment?

A key question to ask yourself here is: is this the least amount of time and effort I can spend to test this hypothesis? Remember, this is supposed to be a small bet you can afford to lose. Too many people think their experiment is building a lighter version of the final product – taking 6 months to put together.

You should be able to run your experiment in under 2 weeks. I will frequently push my innovators to come up with a hypothesis and figure out a way to start the experiment within 24 hours.

e. The Success and Failure Criteria - Before you begin your experiment, it's important to define what success and failure will look like. If success is having 25 percent of customers give you currency, what does it mean when only 15 percent provide it? Has your experiment failed?

You need to set up these parameters before you begin the experiment, so that you'll objectively understand the outcome and not be forced to debate what the results mean with your team.

Additionally, innovators should write out two separate plans of action to pursue depending on whether the experiment reveals the hypothesis to be correct or incorrect. This should be done before conducting the experiment. Some people have such a hard time deciding what to do if an experiment doesn't go as they had planned that they end up making up a justification of why it was a success and allowing themselves to keep moving forward on their idea.

2. Shadow a professional (Easy). Hopefully your students have an idea of what they want to be when they grow up. Some will be absolutely sure. Before they make a huge gamble by picking a specific major and locking themselves into a specific career path, ask them to make a small bet by finding someone who has that the exact job they want and shadowing them for a full day.

Part of the challenge is finding this individual and selling them on the idea.

During their shadow day, students should ask the following types of questions:

- What is different about your vocation than what you anticipated about the profession?
- What do you enjoy about your profession?
- What do you dislike about your profession?
- What does it take to be very successful in your field? In terms of time commitment, emotional toll, travel, etc.

So many students pick a career without ever taking this vital step. It's a small bet they can make to save themselves a lot of time and money in pursuing the wrong profession.

Before the students have their shadow day, ask them to write a short paper predicting what they expect to hear as answers to the above questions. Then afterwards, ask them to put together a PowerPoint explaining their day and what they learned.

After the presentations, lead the following discussion:

- What surprised you the most about your chosen profession?
- How well did you predict the answers to your questions?
- What other large life goals of yours could you test with small bets?

2. Find the vanity metrics (Easy). Ask students to find an article or online presentation about a successful startup and find all the vanity metrics mentioned about the company.

Ask students to do a short write-up about what vanity metrics were mentioned and why those items don't indicate the overall health of the company. Also ask them to list what metrics they would like to see about the company to understand whether it was actually going to be successful and why those metrics would be important.

Then ask the students to present their findings and lead a discussion on:

- Whether each of the vanity metrics they found were actually vanity metrics and why.
- What metrics are actually important to a company.

3. Prove the Ultimate Customer Action for ReBicycle (Hard). Lets assume that Owen's initial interviews revealed that price was in fact a problem. That people would be very interested in his recycled bikes. We still need to prove that customers will buy these bikes online. For this activity, you will ask students to come up with a simple experiment to prove whether people will buy bicycles online. They can't just point to an existing company. They can't send out a survey. They have to conduct some sort of tangible experiment that will prove whether or not they can

get bike customers to purchase ReBicycle products online. See the prototyping materials in the supplemental section.

Students will design an experiment, make predictions about the results, and execute their experiment. Then, they will put the results and their lessons learned in a PowerPoint presentation.

After the presentations, lead the following discussion:

- What surprised you the most about your experiment?
- How well did you predict the outcome?
- How valuable is an experiment like this before committing significant resources to executing on an idea?

4. **Generate revenue from \$1 (Hard).** Put students into teams of 2 and tell them that they have 1 hour to generate as much revenue as they can from \$1. They have up to one week to brainstorm for the activity (no pre-sales!) and write a short business plan for their intended approach.

The short business plan should include a summary of how they plan to make money, who they intend to target as customers, how they will make their pitch, and their prediction for how much money they can generate.

I usually don't give any more instruction than the above.

You will find that most students start the project by taking an introspective view of what skills they have or what they could sell to make money. This is exactly how most entrepreneurs start their businesses, by thinking about what they have to offer rather than starting with potential customers and what problems they are experiencing in their lives. The most successful students will start with customers first and spend the week interviewing folks for problems they could potentially solve.

Also, the \$1 is a red herring. It's a distraction that many students will allow to constrain their creativity (i.e., they think about what they could buy for \$1 and then resell), but the most successful teams will completely ignore the \$1 and just start brainstorming how they can generate the most revenue.

Ask each student to create a PowerPoint explaining what happened and what they learned.

Then after their presentations, lead the following discussion:

- What did you learn about your ability to predict how well your business would do through your short business plan?
- How accurate were you in predicting who your customers would be? Why they would buy from you? How much you would make?
- How long did it take once you realized that your original plan wasn't working for you to make adjustments?

- What do you think was the difference in the approach between the most successful teams and the least successful teams?
- If you were doing this challenge again, what would you do differently?
- If you were thinking about starting a business, how valuable would it be to create a business plan before interacting with your customers?
 - Instead, what small bets would you make to figure out if you had a good business idea?

Supplemental Resources

- Learn about Pretotyping – testing things before you build them
 - Intro video: <https://www.youtube.com/watch?v=t4AqxNekecY#t=1386>
 - Additional content: <http://www.pretotyping.org/resources.html>

That's It!

I'm always working to improve this content, so I would really love to hear any testimonials or feedback you may have after implementing these materials in your classroom.

Thank you!!

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