



Customer Development

How Your Customers
Will Teach You How to Get it Right

Steve Blank

blank@haas.berkeley.edu

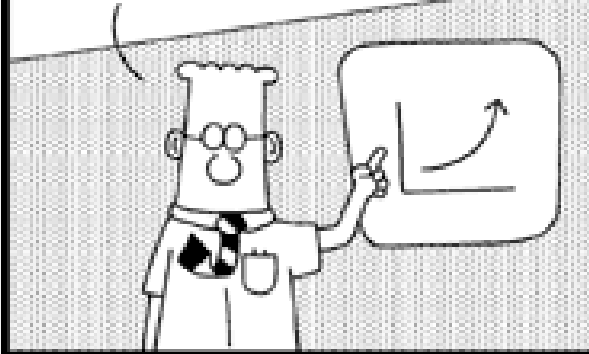
Goals of This Presentation

- **Understand how a Customer Development model can help keep you in business**
- **Use a sales roadmap to win first reference customers**



How to Recognize an Optimistic New Market Sales Forecast

AS REQUESTED, I WROTE THE BUSINESS PLAN TO SHOW PROFITABILITY BY YEAR THREE.



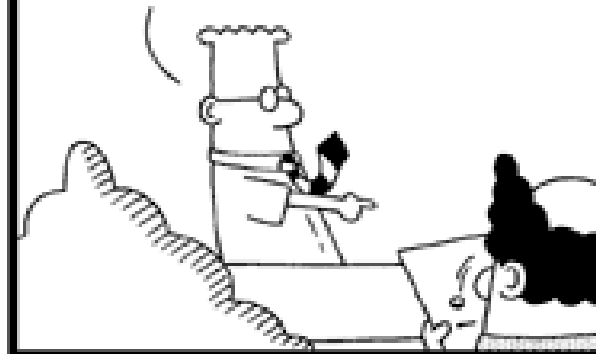
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THE KEY REVENUE ASSUMPTION IS THAT AN ARMORED CAR CRASHES THROUGH THAT WALL AND SPILLS ITS CONTENTS.



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AND DON'T STAND WHERE THE COMET IS ASSUMED TO STRIKE OIL.



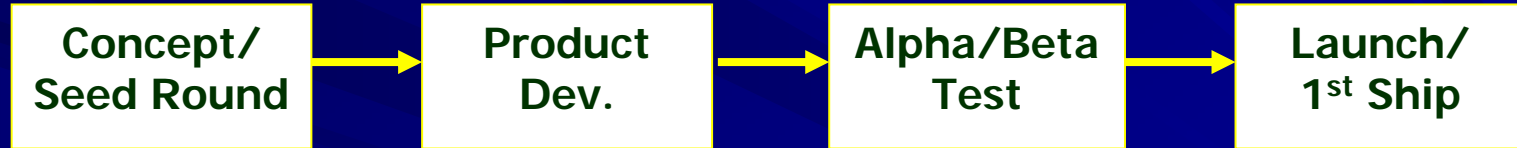
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More startups fail from a lack of customers **than from a failure of product development**

- **We have process to manage
product development**
- **We have no process to manage
customer development**

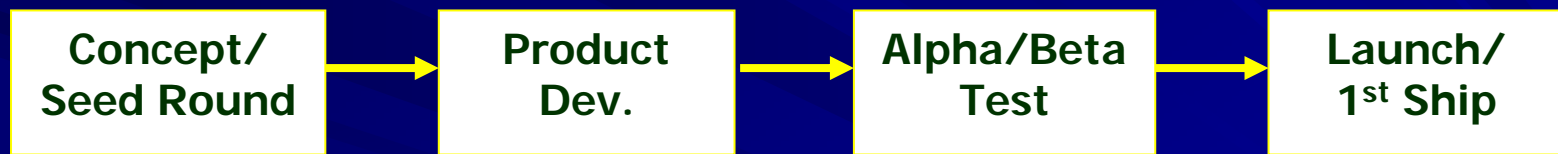


Product Development Model



What's Wrong With This?

Product Development



Marketing

- Create Marcom Materials
- Create Positioning

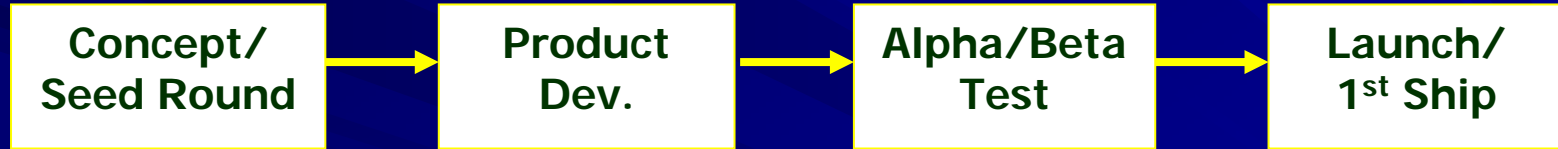
- Hire PR Agency
- Early Buzz

- Create Demand
- Launch Event
- "Branding"



What's Wrong With This?

Product Development



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Sales

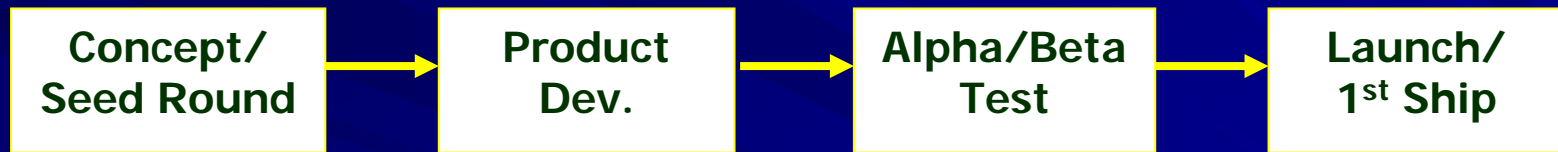
- Hire Sales VP
- Hire 1st Sales Staff

- Build Sales Organization



What's Wrong With This?

Product Development



Marketing

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Sales

- Hire Sales VP
- Hire 1st Sales Staff

- Build Sales Organization

Business Development

- Hire First Bus Dev

- Do deals for FCS



Chasing The FCS Date

- Sales & Marketing costs are front loaded
- Sales, Marketing focused on execution versus learning and discovery
- First Customer Ship becomes the goal
- Execution and hiring is predicated on business plan hypothesis
- Heavy spending hit if product launch is wrong
- Financial projections, assumes all startups are the same

=

**You don't know if you're wrong until you're out of
business/money**



An Inexpensive Fix

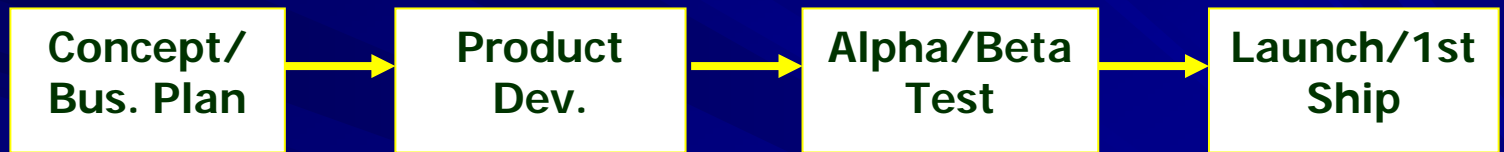
**Focus on Customers and
Markets from Day One**

How?

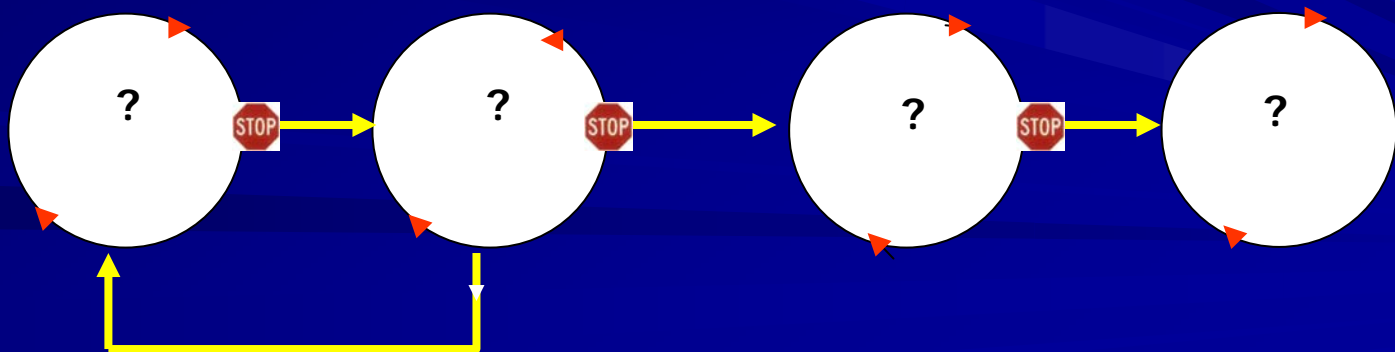


Build a Customer Development Process

Product Development

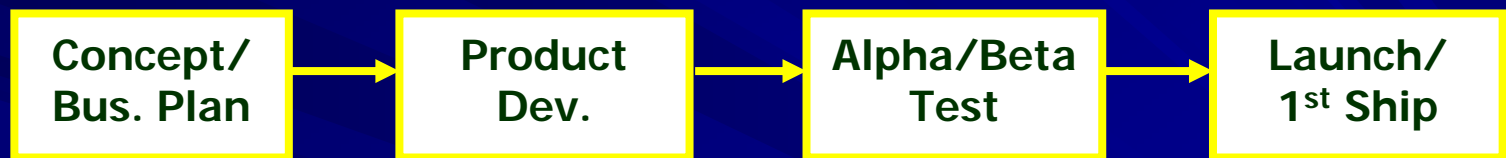


Customer Development

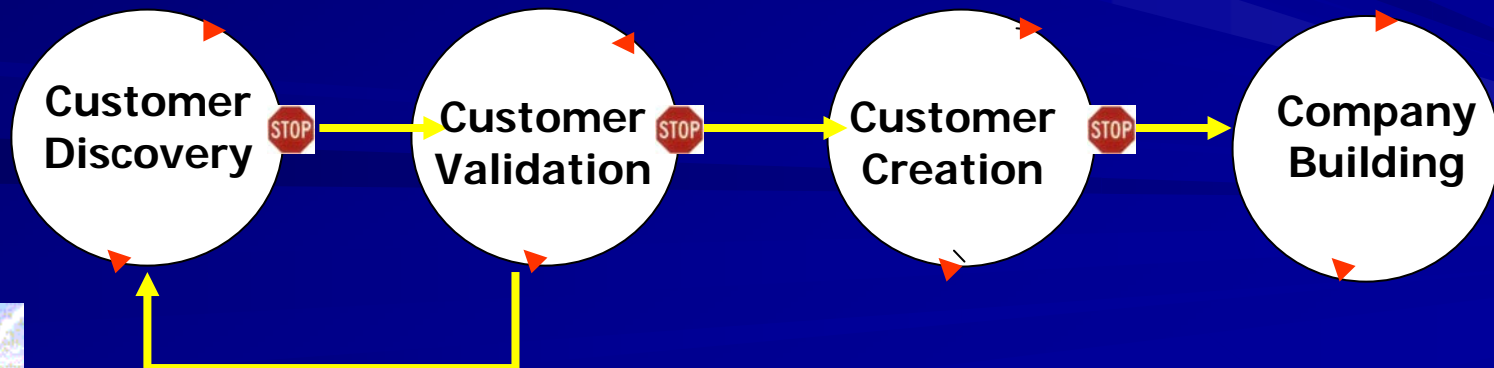


Customer Development is as important as Product Development

Product Development



Customer Development



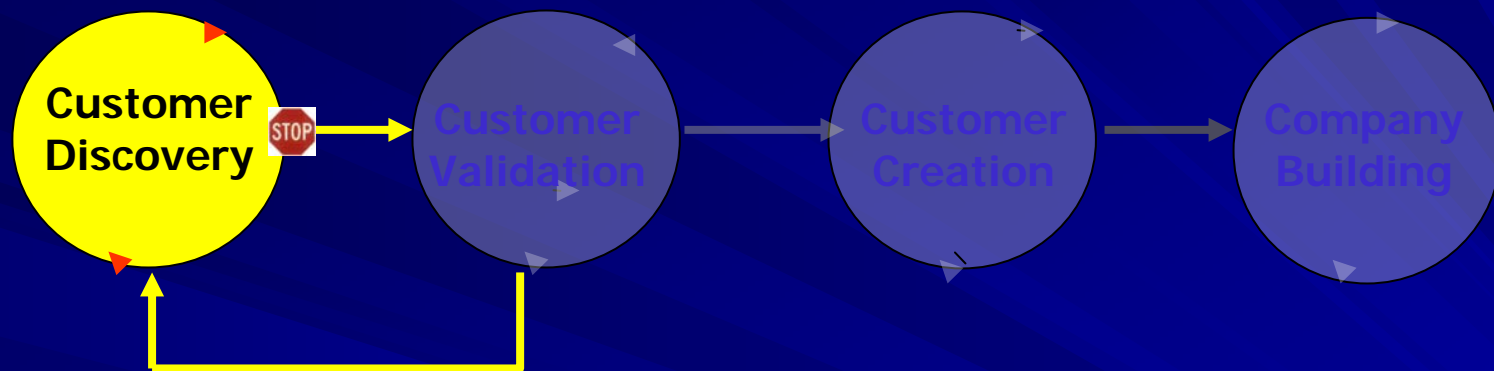
Customer Development: Big Ideas

- Parallel **process** to Product Development
- **Measurable** Checkpoints
- Not **tied to FCS**, but to **customer milestones**
- **Iterative to represent reality**
- Emphasis is on **learning & discovery before execution**



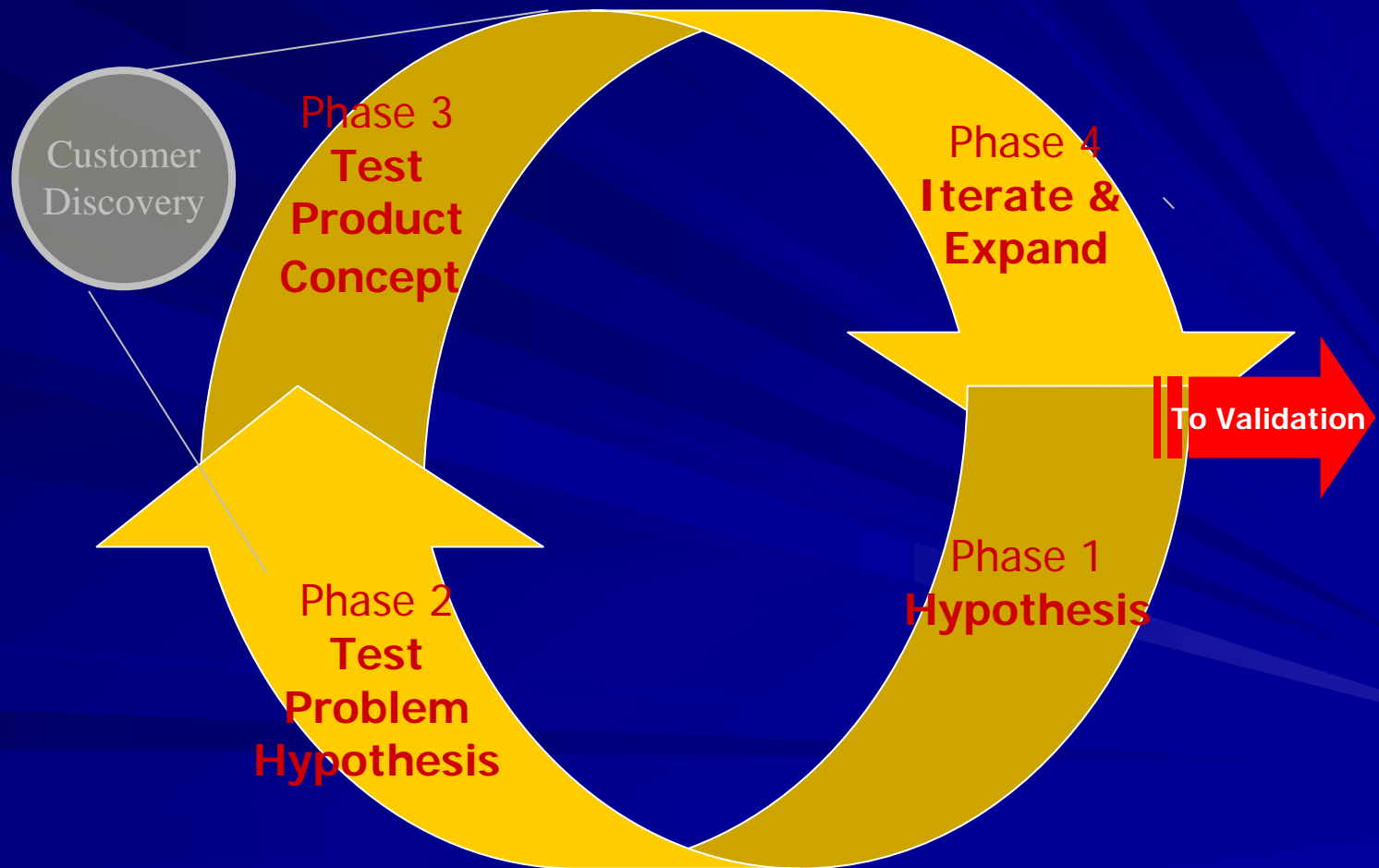
Customer Discovery:

Step 1



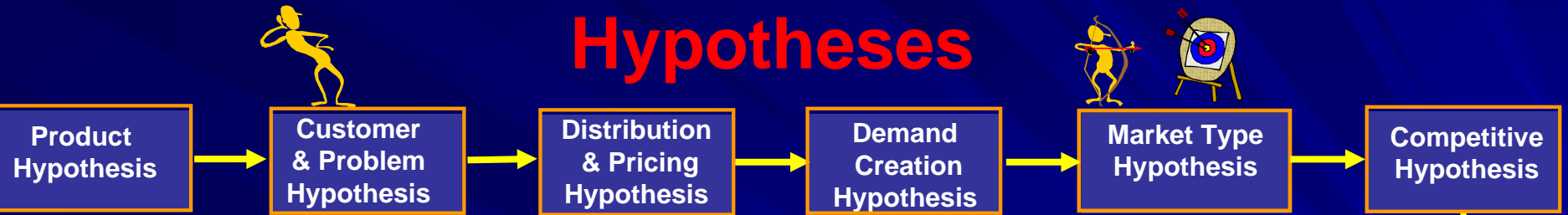
- **Stop selling, start listening**
- **Test your hypotheses**
 - Two are fundamental: problem and product concept

Customer Discovery: Details



Customer Discovery

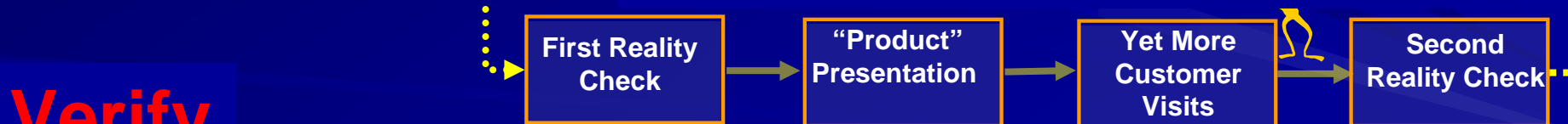
Hypotheses



Test "Problem" Hypothesis



Test "Product" Hypothesis



Verify

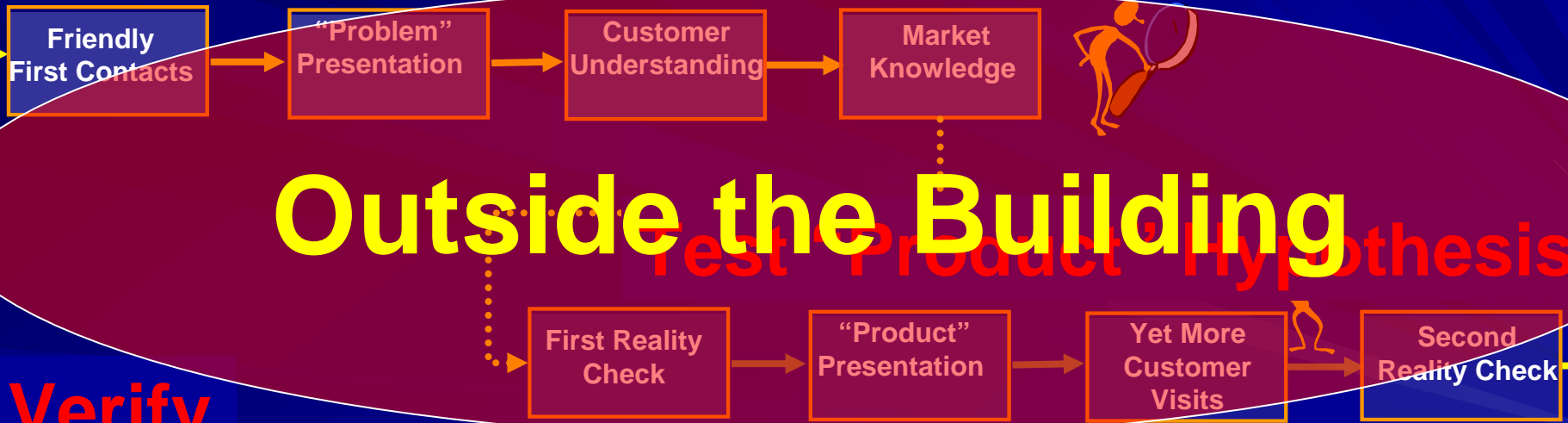


Customer Discovery

Hypotheses



Test "Problem" Hypothesis



Outside the Building

Verify

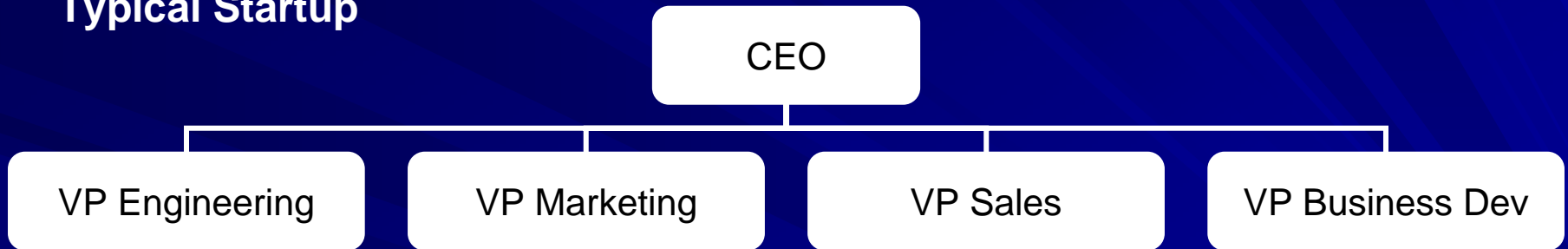


Intermission

**The Customer
Development
Team**

Traditional organizations and titles **Fail**

Typical Startup

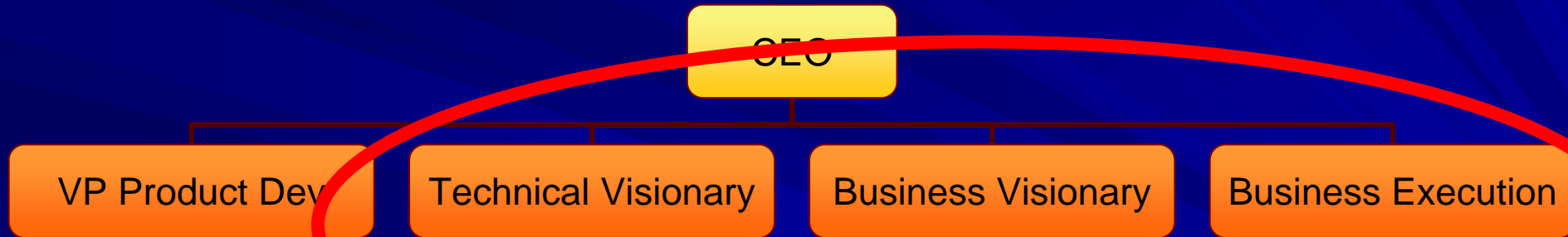


- **People equate their titles with their functions**
 - But standard titles describe execution functions
 - We need new titles = learning & discovery functions



Customer Development Team Tasks Not Titles

Customer Development
Driven Startup



In Front of Customers



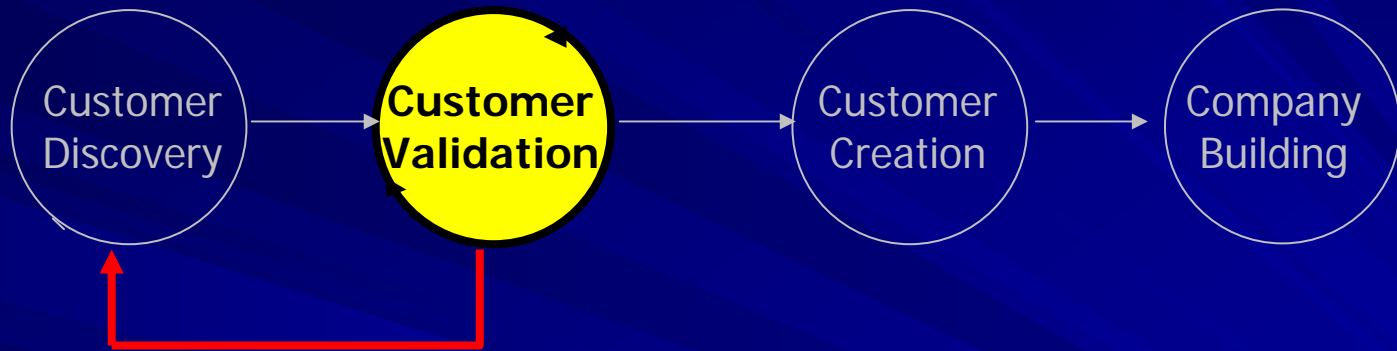
**End of
Intermission**

Customer Discovery Hypotheses

- **Product**
 - Features
 - Dependency Analysis
 - Benefits
 - Product Delivery Schedule
 - Intellectual Property
 - Total Cost of Ownership
- **Customer/Problem**
 - Types of Customers
 - Magnitude of the problem
 - Customer Problem
 - A Day in the Life of a customer
 - Organizational impact
 - ROI Justification
 - Problem Recognition
 - Minimum Feature Set
- **Distribution/ Pricing**
 - Distribution Model
 - Revenue Model
 - Sales Cycle/Ramp
 - Channel strategy
 - Pricing
 - Customer Organization Map
 - Demand Creation
- **Positioning and Differentiation**
 - Existing Market
 - New Market
 - Redefine Existing Market

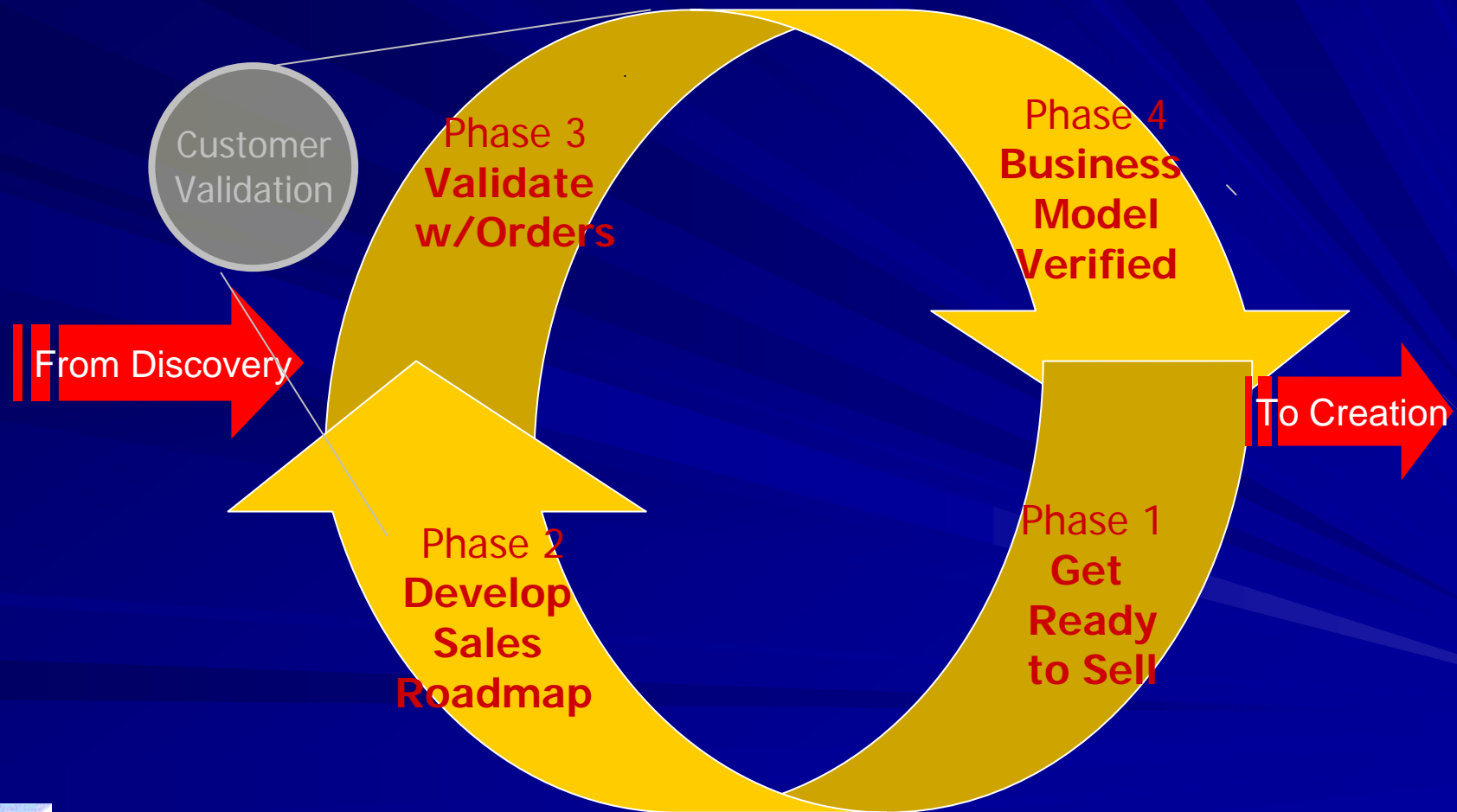


Customer Validation: Step 2



- Develop a **repeatable** sales process
- Only **earlyvangelists** are crazy enough to buy

Customer Validation: Details



Customer Validation

Get Ready to Sell



Sell to "Early Vangelists"



Develop Positioning



Verify



Customer Validation

Get Ready to Sell

Inside the Building

Articulate a Value Proposition

Prelim Sales & Collateral Materials

Refine Distribution Channel Plan

Prelim Sales Roadmap

Align Sales Coverage

Align Your Executives

Formalize Advisory Board

Sell to "Early Vangelists"

Contact Visionary Customers

Sell to Early Customers

Refine Sales Roadmap

Sell to Channel Partners

Refine Channel Roadmap

Outside the Building

Develop Positioning

Product Positioning

Company Positioning

Present to Analysts & Influencers

Verify

Verify the Product

Verify the Sales Roadmap

Verify the Channel Roadmap

Verify the Business Model

Iterate or Exit

Customer Validation: Goals

- **Goal 1:**
Build a sales roadmap, not a sales staff
(A Roadmap is an org chart plus an influence map)
- **Goal 2:**
No sales staffing until the roadmap is proven
- **Goal 3:**
The sales roadmap becomes the sales pipeline



Customer Validation: Finding an “EarlyVangelist”

EarlyVangelist

Has / Or can Acquire
a **Budget**

Has **Put Together** a Solution
out of Piece Parts

Has Been **Actively Looking** For a Solution

Know They Have a **Problem**

Has A **Problem**



Customer Validation: Big Ideas

- **Big Idea 1:**
The *goal* is build a repeatable sales process
Orders are proof that the process works
- **Big Idea 2:**
Only earlyvangelists are crazy enough to buy unfinished products
- **Big Idea 3:**
No orders? Back to Discovery
- **Big Idea 4:**
Early customers help spec version 2



Customer Validation: Exit Criteria

- **Do you have a proven sales roadmap?**
 - Org chart? Influence map?
- **Do you understand the sales cycle?**
 - ASP, LTV, ROI, etc.
- **Do you have a set of orders (\$'s) validating the roadmap?**
- **Does the financial model make sense?**

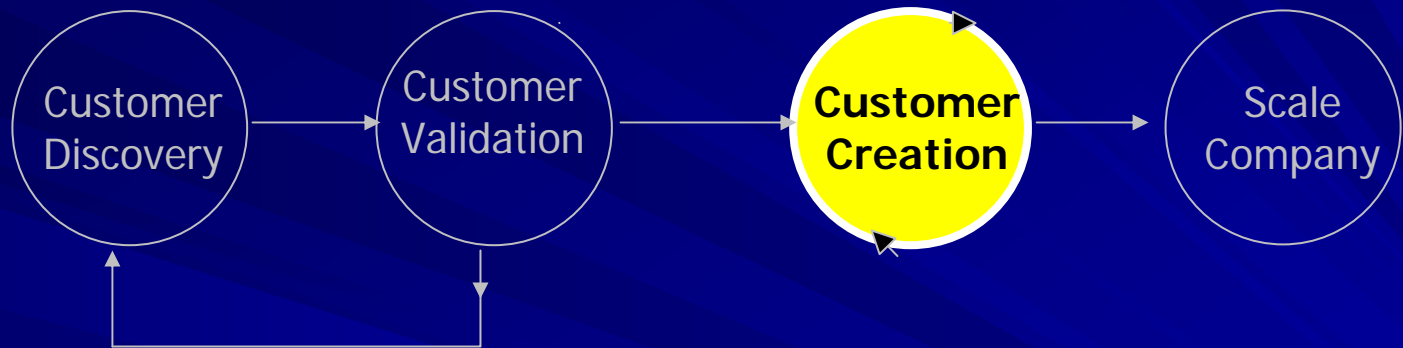


Summary: Why Should I Care?

- **Early Stage Sales differ by market type**
 - Chasm crossing strategies differ
 - Revenue curves differ
 - Sales teams differ
- **Customer Development Model**
 - Process for “getting it right” sooner
 - Develops a sales roadmap for early sales
 - Helps decide on who/what/when for sales staffing

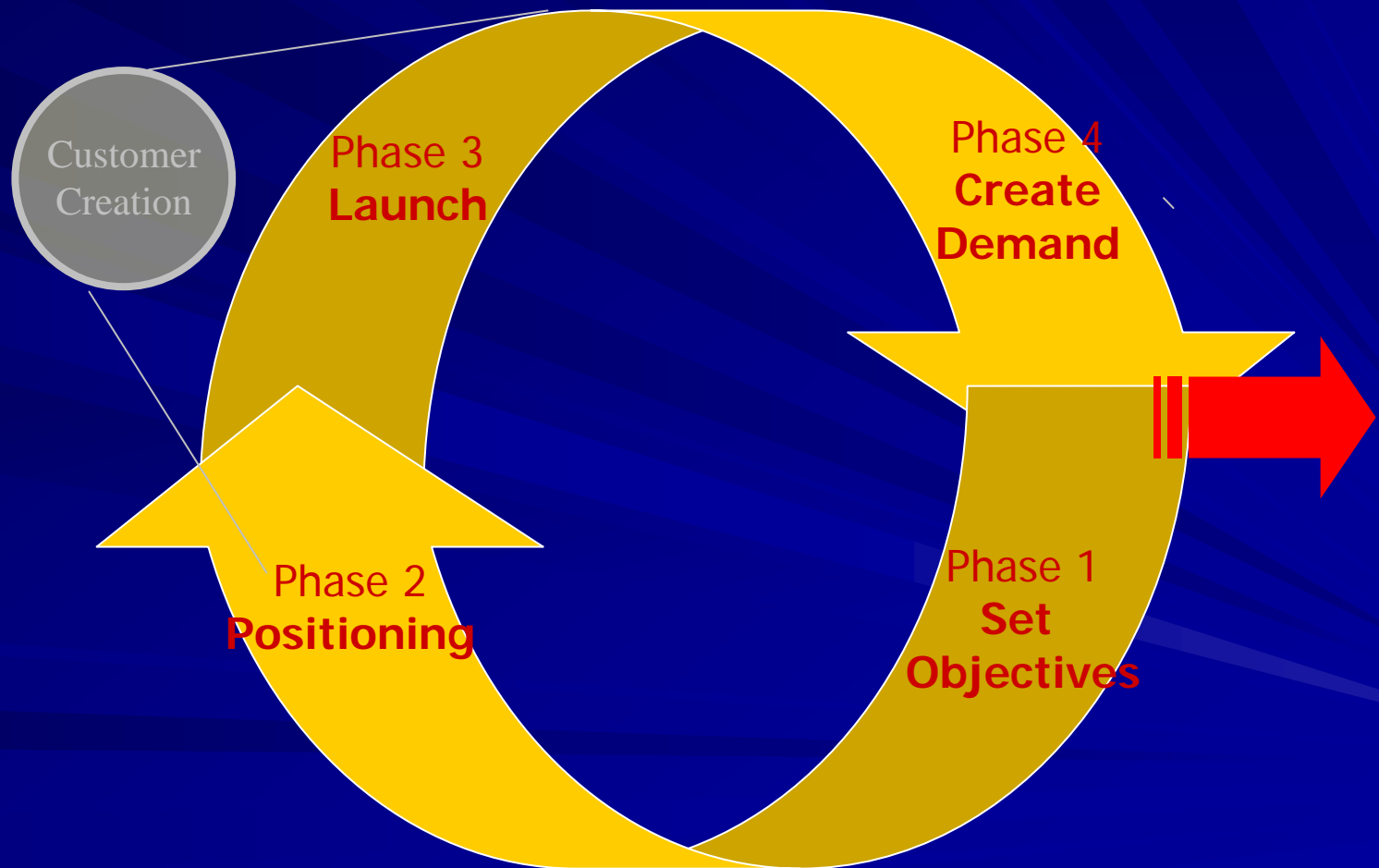


Customer Creation: Step 3



- **Creation comes after proof of sales**
- **Creation is a strategy not a tactic**

Customer Creation: Details



Customer Creation: Big Ideas

- **Big Idea 1:**
Four Customer Creation activities:
 - Year One objectives
 - Positioning
 - Launch
 - Demand creation
- **Big Idea 2:**
Creation activities are different for each of the three types of startups
- **Big Idea 3:**
There is no first mover advantage



Customer Creation: Step by Step



Year One Objectives

- Type of startup
- Distribution model

Positioning

- Articulate problem & product concept
- Understand customer view of competitors

Launch

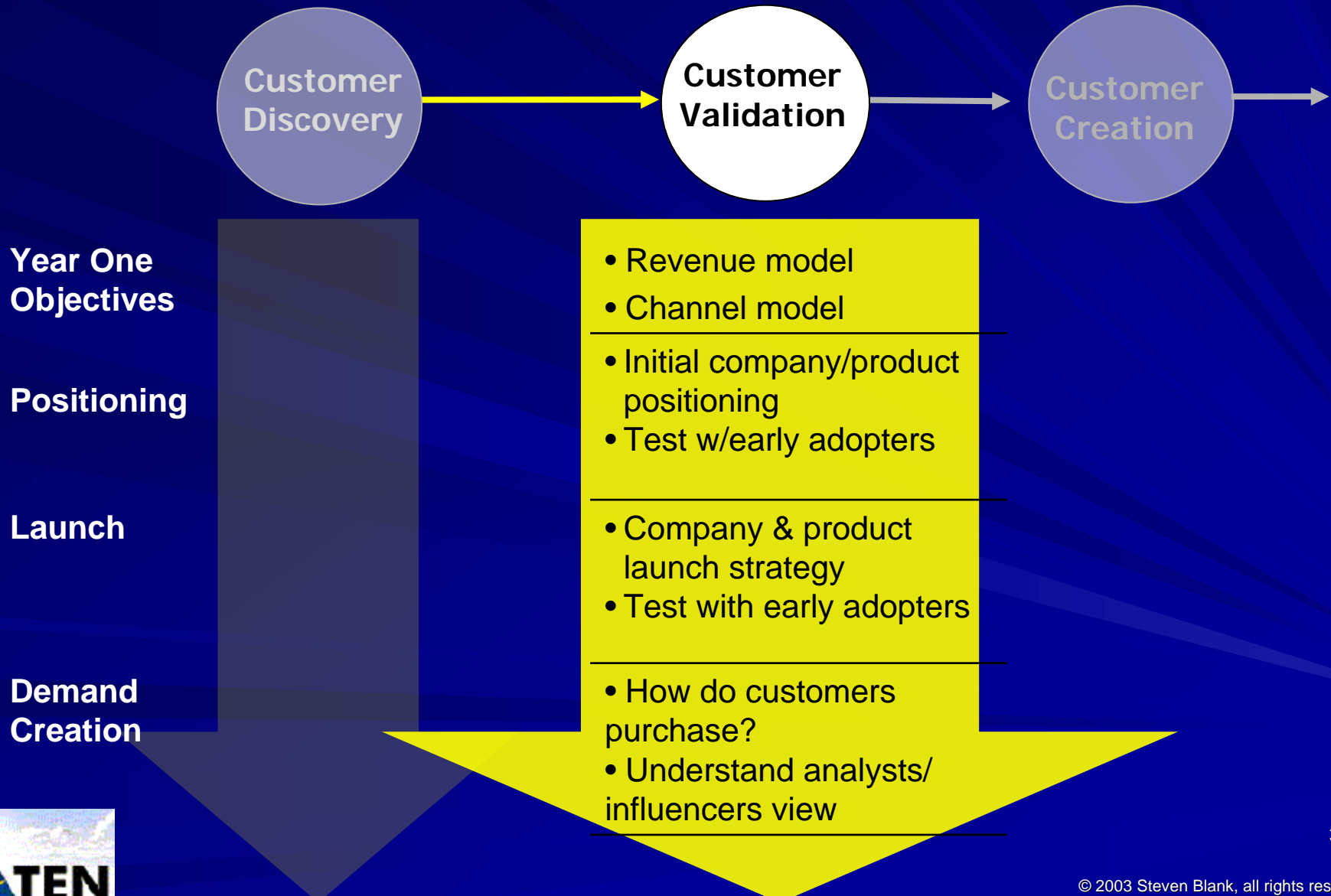
- Day in the life
- Attend shows/conf's
- Estimate mkt size.

Demand Creation

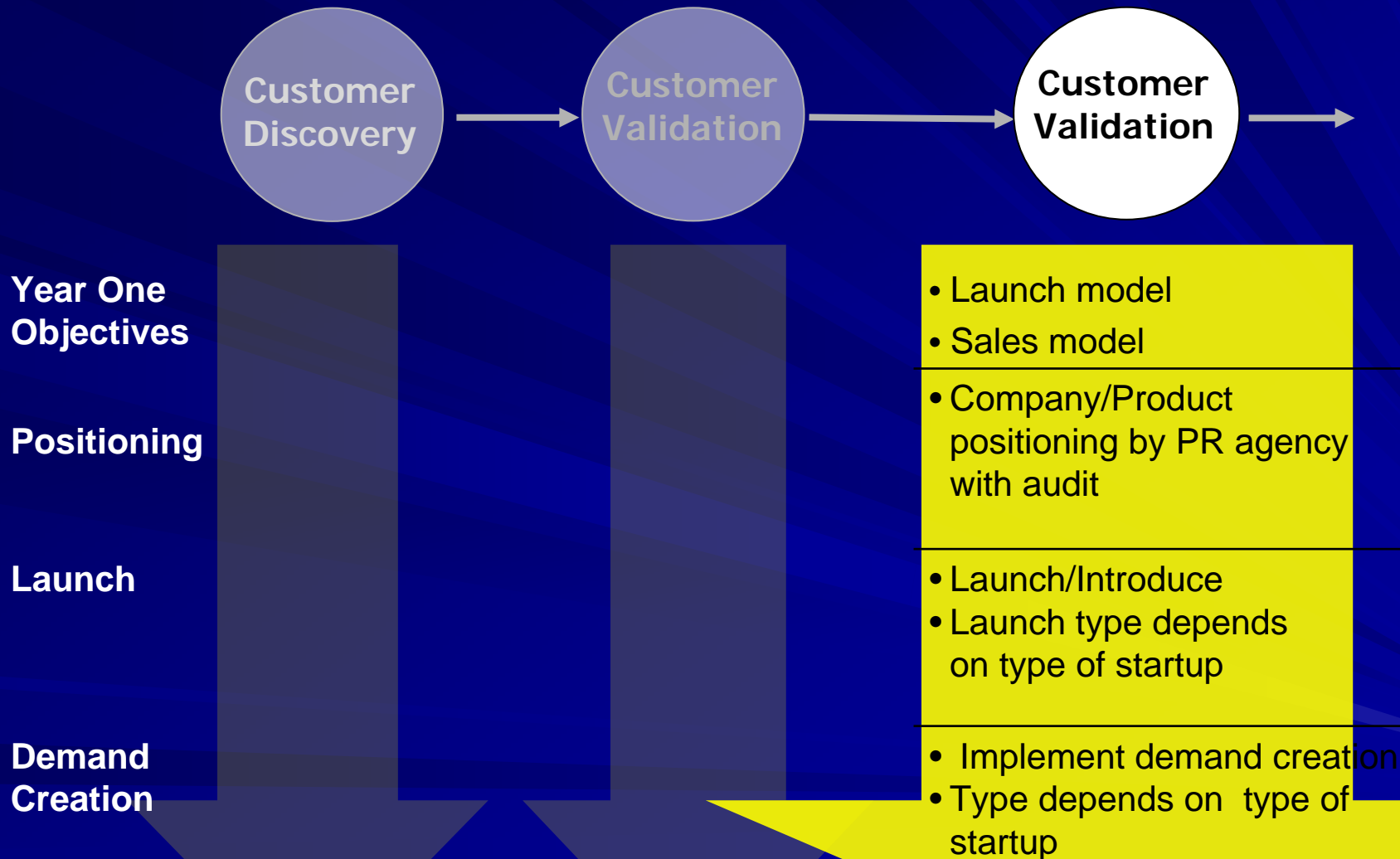
- Press, analysts, influencers list.
- How do customers make buying decisions?



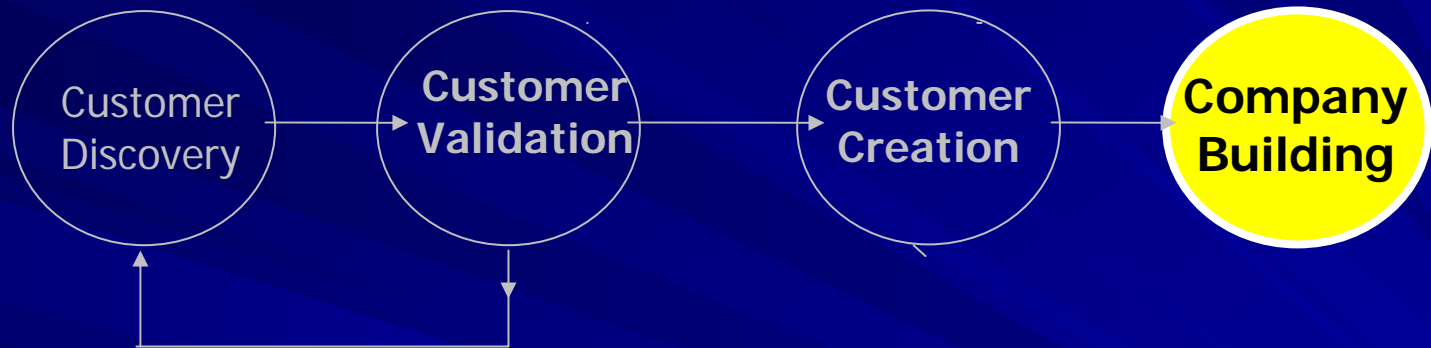
Customer Creation: Step by Step



Customer Creation: Step by Step



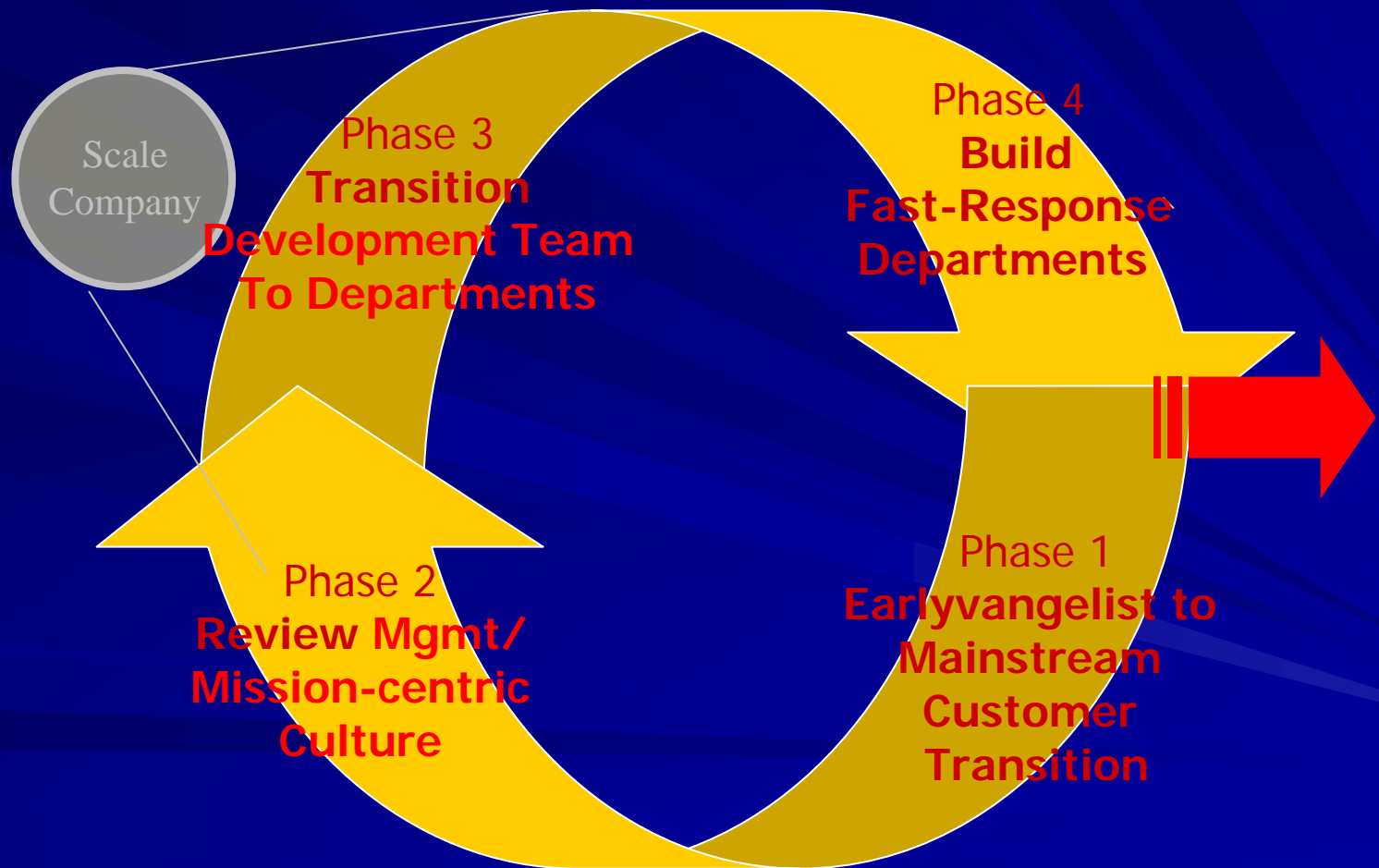
Company Building: Step 4



- **Move from** earlyvangelists to mainstream customers
- **(Re)build your company's** organization & management



Company Building: Details



Company Building: Big Ideas

- **Big Idea 1:**
Geoff Moore was right - there is a chasm, but...
 - The chasm differs by market type
- **Big Idea 2:**
Management strategies need to change as the company grows
 - Development-team centric \Rightarrow Mission-centric \Rightarrow Process-centric
- **Big Idea 3:**
Mission-oriented culture is the “bridge” culture
 - Unanimity and clear understanding of purpose, focus & direction
 - Adaptability, empowerment, initiative



Evolution of Management Strategy

**Customer
Development**



**Company
Building**



**Large
Company**



Company Building: Exit Criteria

- Does sales growth plan match market type?
- Does spending plan match market type?
- Does the board agree?
- Is your team right for the stage of company?
- Have you built a mission-oriented culture?



Summary: Why Should I Care?

- **VC's will no longer pay for startups mistakes**
- **Running your company from inside the building will put you out of business**
- **You now have tools for:**
 - course correction
 - management
 - planning
 - deliverables

