The Customer Development Model

Sales, Marketing, and Business Development in a Startup

Steve Blank
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Goals of This Presentation

- Offer a model for how to organize “out of the building” activities
- Understand how the Customer Development model can help
  - Methodology
  - Checklist
  - Model works for startups as well as follow-on products of existing companies
  - reduce customer and market risk
How to Recognize a Company Funded in the Bubble

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

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

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

- VC’s are back to basics
  - $’s not available to cover execution errors
  - CEO’s pay with their jobs (and sometimes company)

- Startups must go back to basics as well

- How?

- Build a model that minimizes errors and risk

- What risks?
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

- Concept/Seed Round
- Product Dev.
- Alpha/Beta Test
- Launch/1st Ship
What’s Wrong With This?

Product Development

Concept/Seed Round → Product Dev. → Alpha/Beta Test → Launch/1st Ship

Marketing
- Create Marcom Materials
- Create Positioning
- Hire PR Agency
- Early Buzz
- Create Demand
- Launch Event
- “Branding”
What’s Wrong With This?

Product Development

- **Concept/Seed Round**
  - Create Marcom Materials
  - Create Positioning

- **Product Dev.**
  - Hire PR Agency
  - Early Buzz

- **Alpha/Beta Test**
  - Create Demand
  - Launch Event
  - “Branding”

- **Launch/1st Ship**
  - Hire First Sales Staff
  - Build Sales Organization

Marketing

Sales
What’s Wrong With This?

Product Development

Concept/Seed Round → Product Dev. → Alpha/Beta Test → Launch/1st Ship

Marketing
- Create Marcom Materials
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- Hire PR Agency
- Early Buzz

- Create Demand
- Launch Event
- “Branding”

Sales
- Hire First Sales Staff
- Build Sales Organization

Business Development
- Hire First Bus Dev
- Do deals for FCS
What’s Wrong With This?

- 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
- Unrealistic financial projections, assumes all startups are the same

\[
\text{You don’t know if you’re wrong until you’re out of business/ money}
\]
An Inexpensive Fix

Focus on Customers and Markets from Day One

How?
Build a Customer Development Process

Product Development

Concept/Bus. Plan → Product Dev. → Alpha/Beta Test → Launch/1st Ship

Customer Development

? → ? → ? → ?
Customer Development is as important as Product Development

Product Development

Concept/Bus. Plan → Product Dev. → Alpha/Beta Test → Launch/1st Ship

Customer Development

Customer Discovery → Customer Validation → Customer Creation → Company Building

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Customer Development: Big Ideas

- Parallel process to Product Development

- Measurable Checkpoints for the CEO

- Not tied to FCS, but to customer milestones

- Iterative to represent reality

- Executed by a small team including CEO
Customer Discovery:
Step 1

- Stop selling, start listening

- Test your hypotheses
  - Two are fundamental: problem and product concept
Customer Discovery: Details

Phase 1 Hypothesis

Phase 2 Test Problem Hypothesis

Phase 3 Test Product Concept

Phase 4 Iterate & Expand

To Validation

Customer Discovery
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 Discovery: Rules

- Rule 1:
  Facts are outside the building, opinions are inside.

- Rule 2:
  Solve a problem that customers say is important and valuable

- Rule 3:
  Does the product concept solve that problem?
# Three Types of Markets

<table>
<thead>
<tr>
<th>Existing Market</th>
<th>Resegmented Market</th>
<th>New Market</th>
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# Three Types of Markets

<table>
<thead>
<tr>
<th>Market</th>
<th>Sales</th>
<th>Finance</th>
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- **Market**
  - Market Size
  - Cost of Entry
  - Launch Type
  - Competitive Barriers
  - Positioning

- **Sales**
  - Sales Model
  - Margins
  - Sales Cycle
  - Chasm Width

- **Finance**
  - Ongoing Capital
  - Time to Profitability

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Customer Discovery: Big Ideas

- **Big Idea 1:**
  There are three types of startups. Which are you?

- **Big Idea 2:**
  Are there customers for the product *as spec’d*?

- **Big Idea 3:**
  Are you synchronizing customer and product development early and often?
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
The Customer Development Team
Tasks Not Titles

Customer Development
Driven Startup

In Front of Customers
Customer Discovery: Exit Criteria

- What are your customers top problems?
  - How much will they pay to solve them?

- Does your product concept solve them?
  - Do customers agree? How much will they pay?

- Draw a day-in-the-life of a customer
  - before & after your product

- Draw the org chart of users & buyers
Customer Validation: Step 2

- Develop a repeatable sales process
- Only early evangelists are crazy enough to buy
Customer Validation:
Details

From Discovery

Phase 1
Get Ready to Sell

Phase 2
Develop Sales Roadmap

Phase 3
Validate w/ Orders

Phase 4
Business Model Verified

To Creation

Customer Validation
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
Build the Organization Map

Dave Jones
CEO

Karen Rogers
VP Marketing

Neil Garrett
VP Database Marketing

Suzanne Kellogg
VP Merchandizing

Our Potential Customer

- in house competition
- issues to be addressed before a sale
Build the Organization Map: One Step at A Time

Dave Jones
CEO

Ben White
VP Sales

Joe Black
Dir. Sales Operations

Karen Rogers
VP Marketing

Neil Garrett
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Suzanne Kellogg
VP Merchandizing

Leslie Elders
Financial Modeling

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Phil Whitry
Director IT

Roger Smith
CIO

Geoff Smith
Financial Tools Development

Our Potential Customer

= in house competition
= issues to be addressed before a sale
# The Influence Map

<table>
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<th>Functional</th>
<th>Technical</th>
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<tbody>
<tr>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Executive</td>
<td>1 → 2 CIO or Division IT executive</td>
</tr>
<tr>
<td>Low</td>
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</tr>
<tr>
<td>End Users</td>
<td>3 → 4 Corp. IT staff or Division IT</td>
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The Sales Model: Starts with What You’ve Learned

Educate & Present Solution

Operational       Technical

High              Low

Execs             IT Staff

End Users         CIO
The Sales Model: Adds Access, Assessment & Strategy
The Sales Model

Access
- Finance
- Product Mgmt
- Sales
- Corp. Mktg
- Support
- IT

Assess Needs

Strategy
- Intro Meetings
- Account Strategy

Educate & Present Solution
- Operational
  - Execs
  - End Users
- Technical
  - CIO
  - IT Staff

Sell, Sell, Sell, Sell, Sell
- Implement Plan
- Proposal

Sell, Sell, Sell, Sell, Sell
The Sales Pipeline

1. Prepare
   - Hoovers, One Source, Web

2. Initial Meeting
   - Ask tough questions
   - Do Buy-In Demo

3. Qualify?

4. Understand Existing Situation
   a) Technology
   b) Organization
   c) Competition

5. Custom Pitch
   - Prepare!
   - Get NDA signed

6. Win Over IT
   - Tech deep dive

7. Define Problem
   - Develop Action Plan

8. ROI Pitch
   - Prove the Value!

9. Exec Session
   - Set expectations for this meeting early on.

10. Solution Session
    - Detailed Tech discovery

11. Formal Pricing Proposal
    - No surprises!

12. Negotiate
    - Sales
    - Finance
    - Support

13. Close!
Customer Validation: Rules

- **Rule 1:**
  Build a sales roadmap, not a sales staff

- **Rule 2:**
  Roadmap is an org chart plus an influence map

- **Rule 3:**
  No sales staffing until the roadmap is proven

- **Rule 4:**
  The sales roadmap becomes the sales pipeline
Customer Validation: Details

Phase 1: Get Ready to Sell

Phase 2: Develop Sales Roadmap

Phase 3: Validate w/ Orders

Phase 4: Business Model Verified

Back to Discovery if no Sale

To Creation
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?
Customer Creation:

Step 3

• Creation comes after proof of sales
• Creation is a strategy not a tactic
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: Four Activities

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 • Product differentiation | • Create/drive demand into the sales channel | • Credibility / delivery  
 • Existing basis of competition |
| **Reframing Existing Market** | • Market reframing + new market share  
 • Redefining existing market & product differentiation | • Educate market on change  
 • Drive demand into channel | • Segmentation, delivery and innovation  
 • New basis of competition |
# Customer Creation: Four Activities

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<td>• Vision &amp; innovation in new market</td>
<td>• Customer education</td>
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# Customer Creation: Type of Launch

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Customer Creation: Rules

- **Rule 1:**
  No demand spending until customer validation

- **Rule 2:**
  Match the creation strategy to the company

- **Rule 3:**
  Match the spending goals to year 1 objectives

- **Rule 4:**
  You can’t get customers if they aren’t there
Customer Creation: Exit Criteria

- Which startup strategy are you executing?
- Positioning tested & complete?
- Launch strategy match startup type?
- Demand creation activities match startup type?
- Year 1 objectives match startup type?
Company Building: Step 4

- Move from early evangelists to mainstream customers
- (Re)build your company’s organization & management
Company Building:
Details

Phase 1
Earlyvangelist to Mainstream Customer Transition

Phase 2
Review Mgmt/ Mission-centric Culture

Phase 3
Transition Development Team To Departments

Phase 4
Build Fast-Response Departments

Scale Company
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 ⇒ Mission-centric ⇒ Process-centric

- **Big Idea 3:**
  Mission-oriented culture is the “bridge” culture
  - Unanimity and clear understanding of purpose, focus & direction
  - Adaptability, empowerment, initiative
New Market Chasm
New Market =
Hockey Stick Sales Curve
Existing Market Chasm
Existing Market = Linear Sales Growth
Resegmented Market Chasm
Resegmented Market = Complex Sales Growth
Evolution of Management Strategy

Customer Development

Company Building

Large Company

Development Team-centric

Mission-centric

Process-centric
Mission Culture &
Fast Response Departments

- Not the traditional PR mission statement
  - Mission + Intent
  - Actionable words, achievable goals
  - Driven down to the lowest operational units

- Organizing principle of Fast-Response Departments
  - Based on John Boyd’s OODA loops
  - Observe, Orient, Decide & Act
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

Customer Development

Customer Discovery → Customer Validation → Customer Creation → Company Building

STOP

STOP

STOP

STOP
Summary: Why Should I Care?

- VC’s will no longer pay for startups mistakes

- You now have tools for:
  - course correction
  - management
  - planning
  - deliverables
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