

The Customer Development Model

**Sales, Marketing, and Business
Development in a Startup**

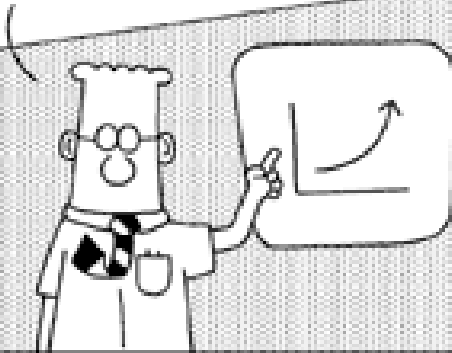
Steve Blank
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Goals of This Presentation

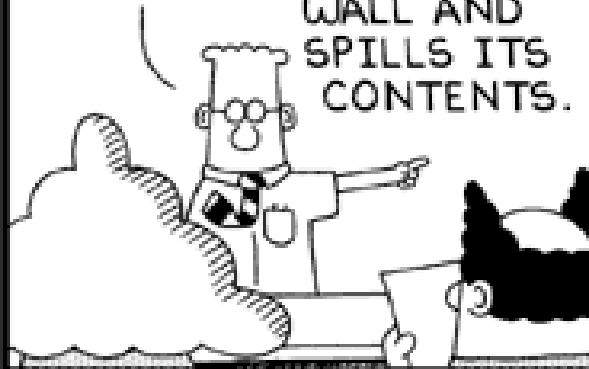
- **Offer a model for how to organize “out of the building” activities**
- **Understand how the Customer Development model can help**
 - Methodology
 - Checklist
 - Model works for startups as well as follow-on products of existing companies
 - reduce customer and market risk

How to Recognize a Company Funded in the Bubble

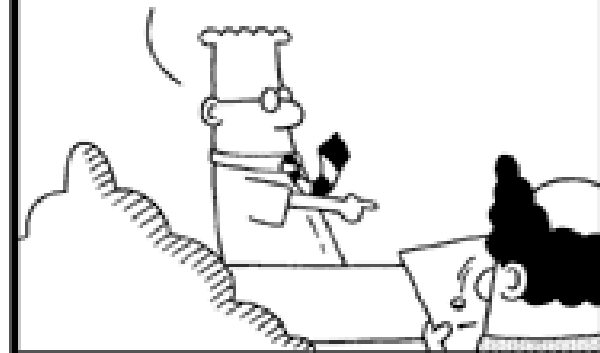
AS REQUESTED, I WROTE THE BUSINESS PLAN TO SHOW PROFITABILITY BY YEAR THREE.



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.



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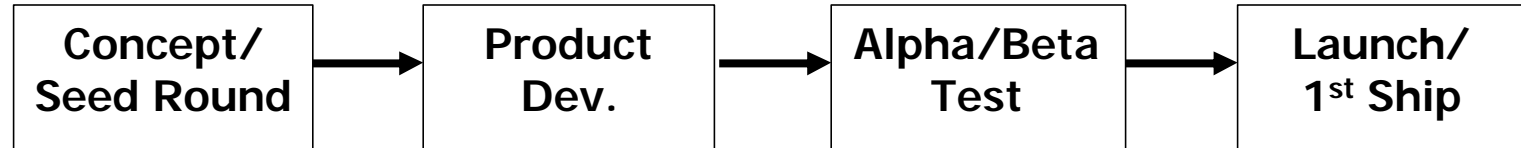
Tough Times

- **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

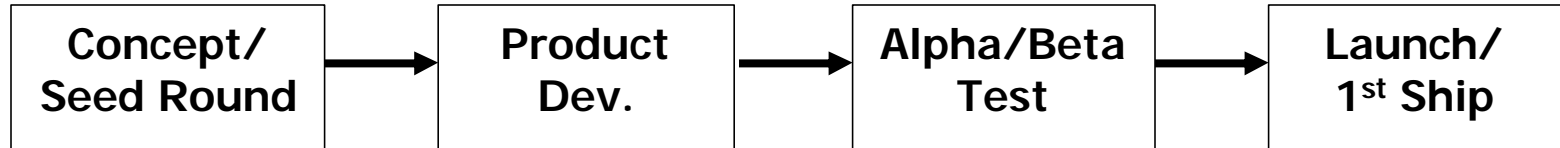
- **We have process to manage
product development**
- **We have no process to manage
customer development**

Product Development Model



What's Wrong With This?

Product Development



Marketing

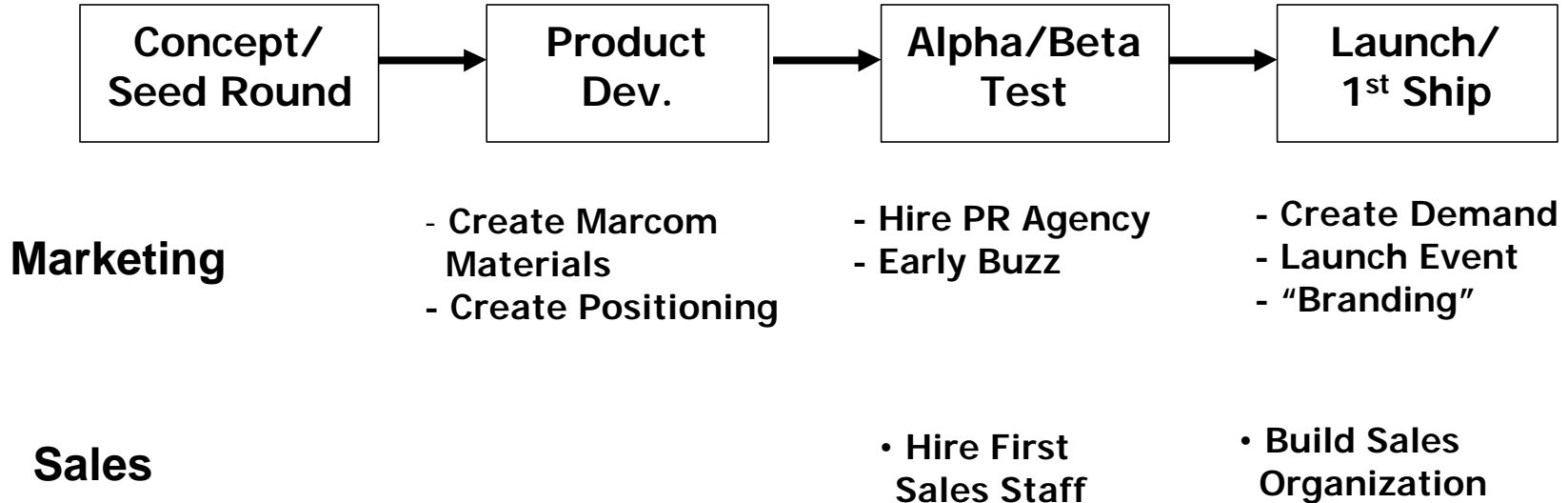
- Create Marcom Materials
- Create Positioning

- Hire PR Agency
- Early Buzz

- Create Demand
- Launch Event
- "Branding"

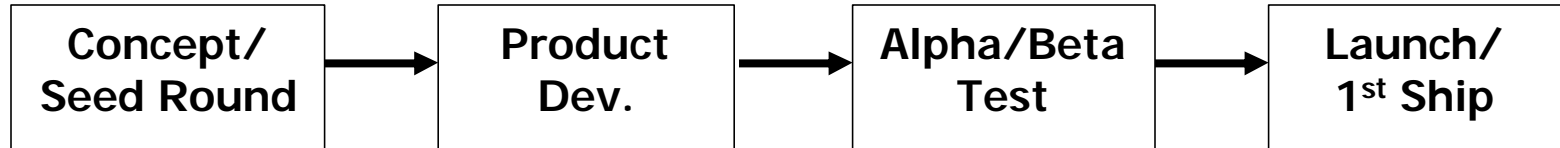
What's Wrong With This?

Product Development



What's Wrong With This?

Product Development



Marketing

- Create Marcom Materials
- Create Positioning

- 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

=

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

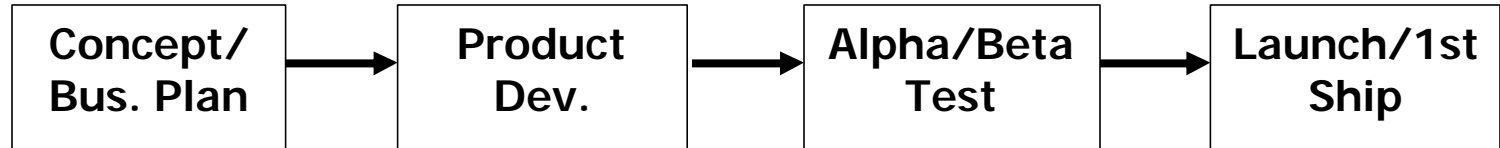
An Inexpensive Fix

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

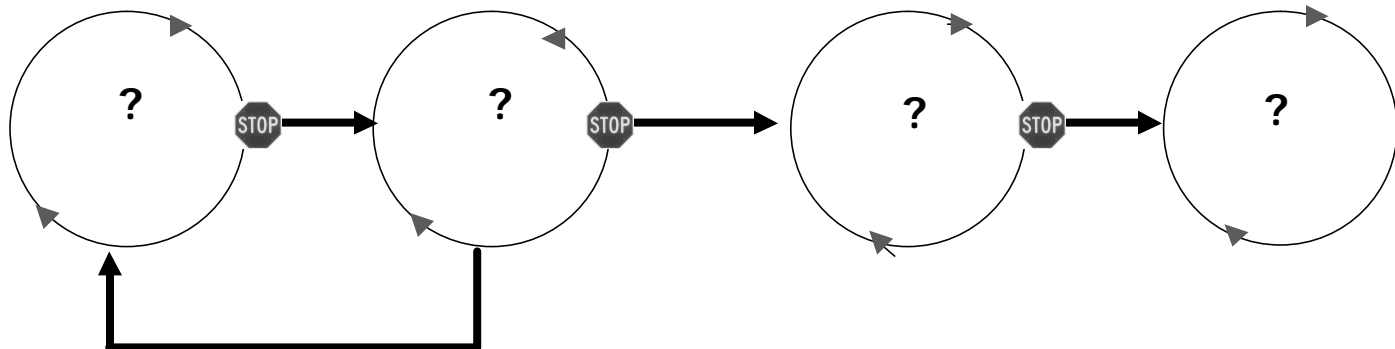
How?

Build a Customer Development Process

Product Development

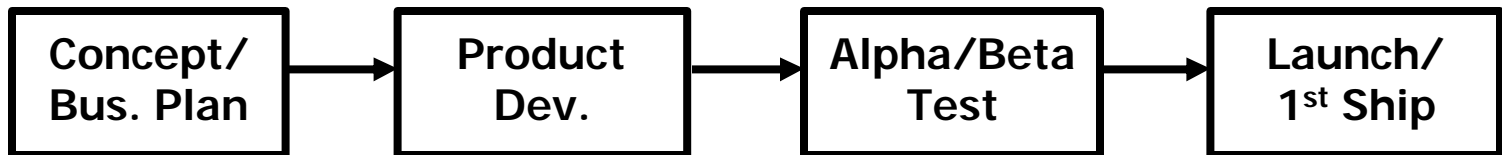


Customer Development

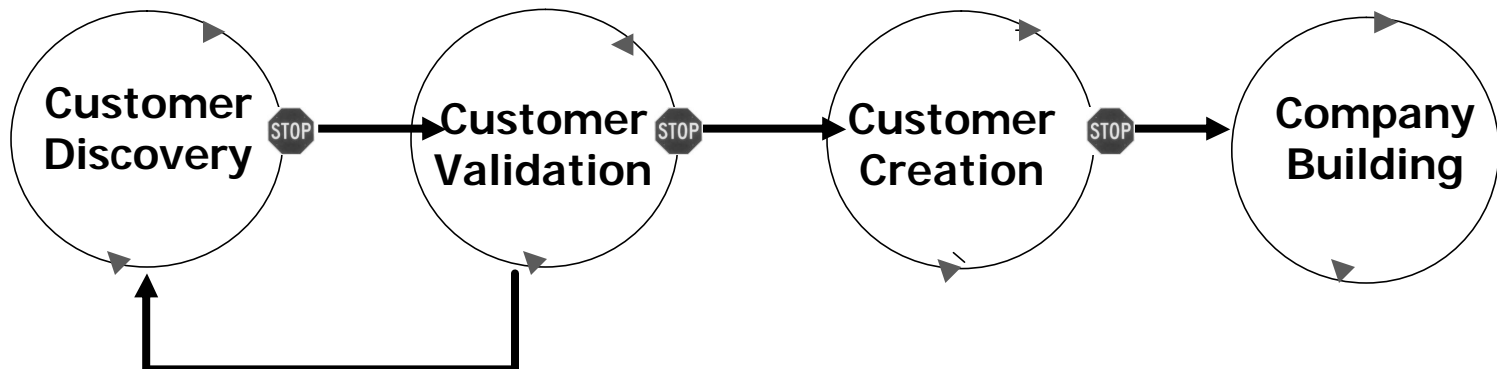


Customer Development is as important as Product Development

Product Development



Customer Development

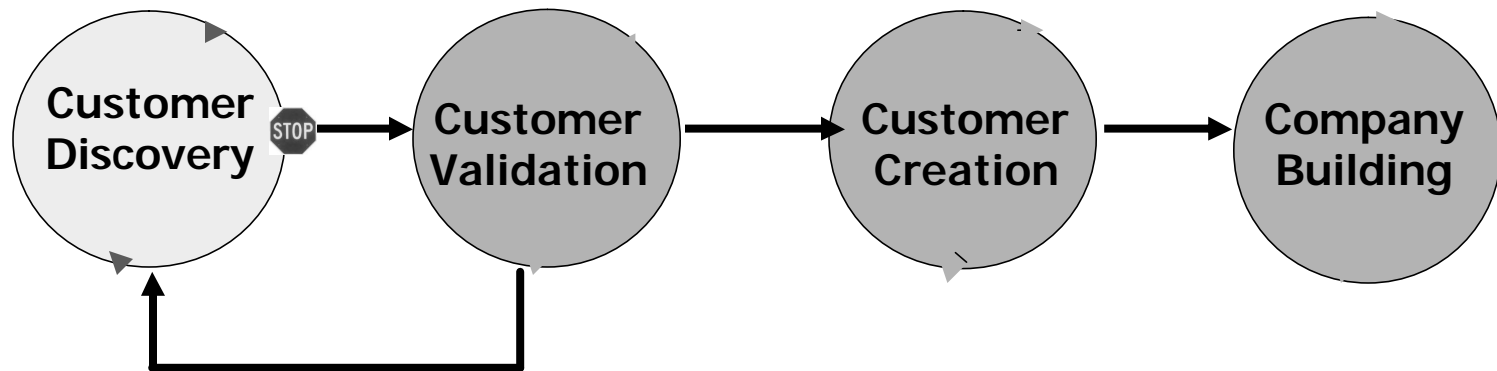


Customer Development: Big Ideas

- **Parallel process to Product Development**
- **Measurable Checkpoints for the CEO**
- **Not tied to FCS, but to customer milestones**
- **Iterative to represent reality**
- **Executed by a small team including CEO**

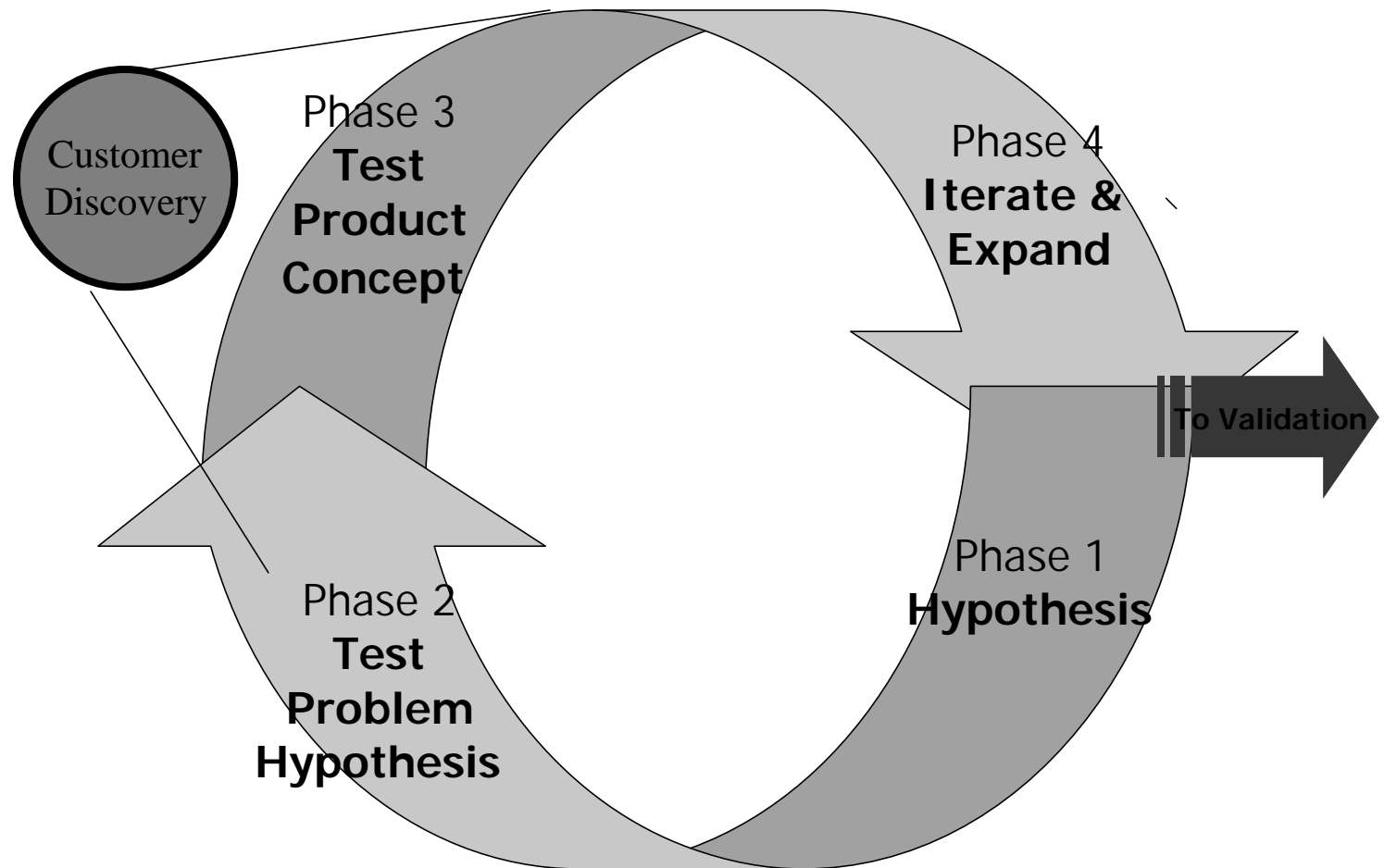
Customer Discovery:

Step 1



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

Customer Discovery: Details



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



Three Types of Markets



- **Market**

- Market Size
- Cost of Entry
- Launch Type
- Competitive Barriers
- Positioning

- **Sales**

- Sales Model
- Margins
- Sales Cycle
- Chasm Width

- **Finance**

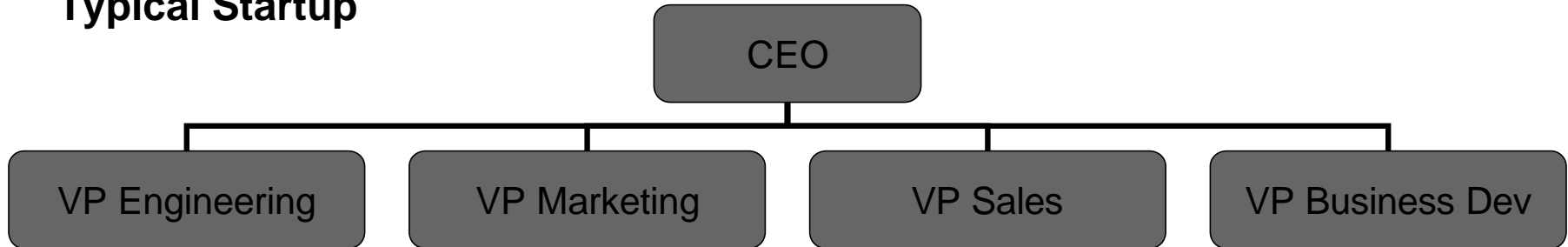
- Ongoing Capital
- Time to Profitability

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

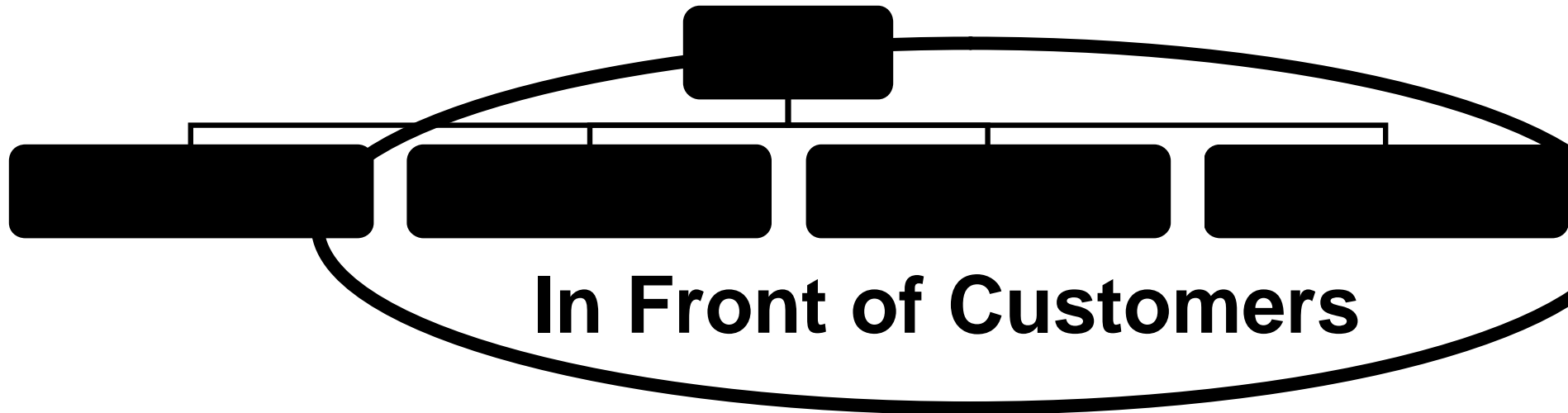
Typical Startup



- **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

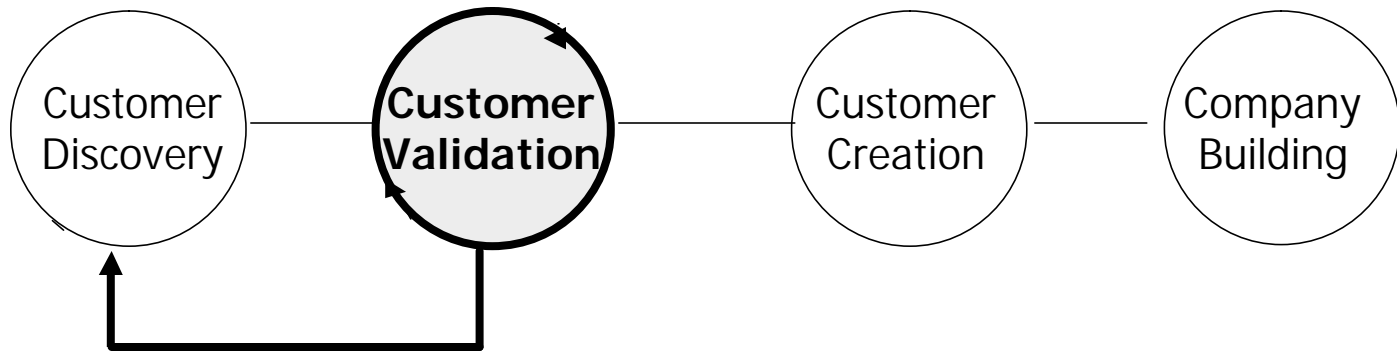


Customer Discovery: Exit Criteria

- **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**

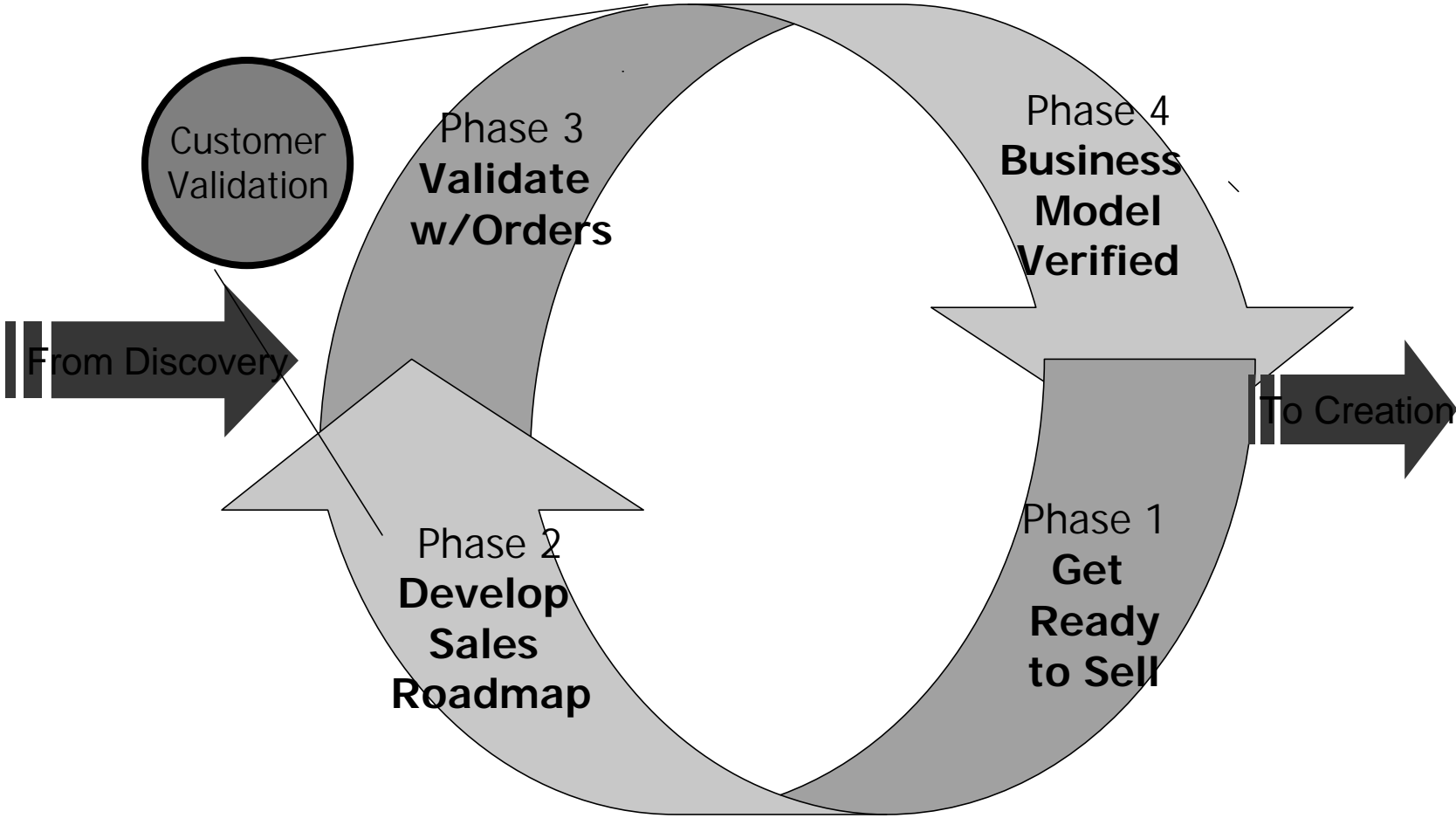
Customer Validation:

Step 2



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

Customer Validation: Details



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

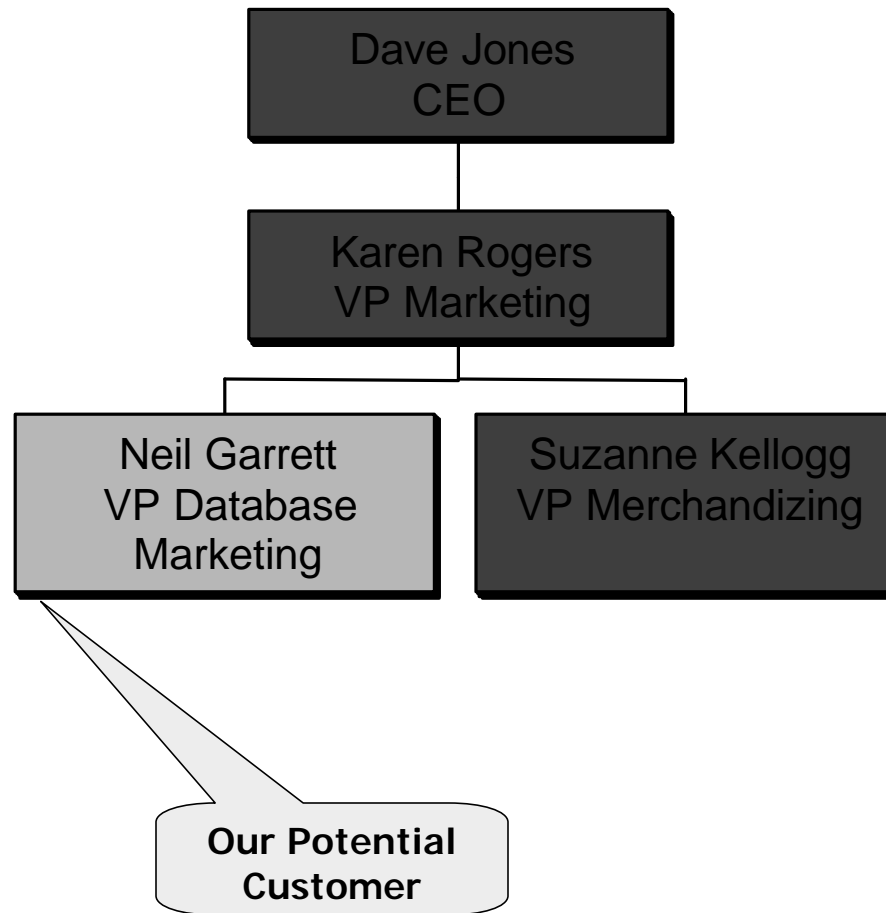
Know They Have a Problem



Has A Problem

Customer Validation: Big Ideas

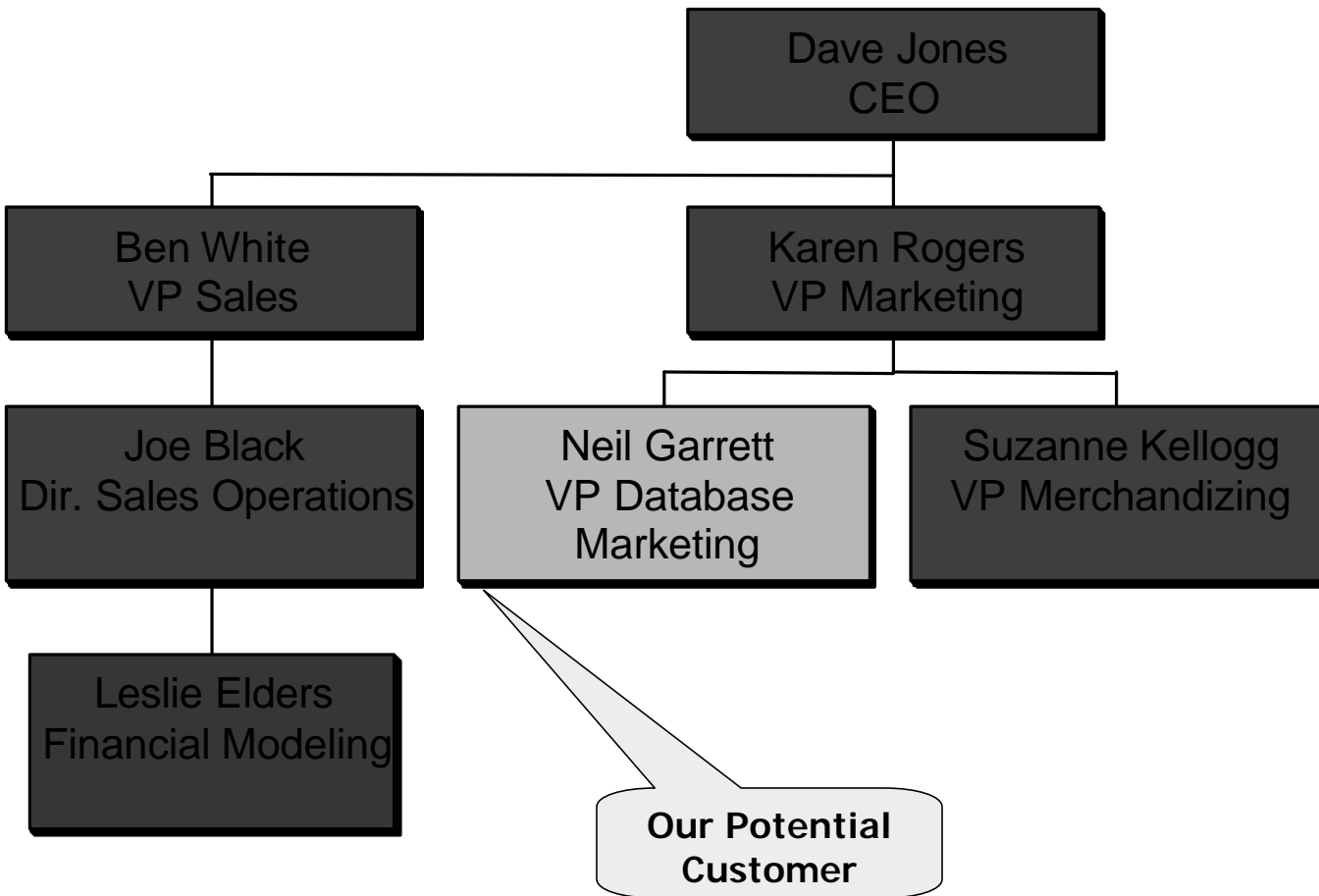
- **Big Idea 1:**
The *goal* is build a repeatable sales process
Orders are proof that the process works
- **Big Idea 2:**
Only earlyvangelists are crazy enough to buy unfinished products
- **Big Idea 3:**
No orders? Back to Discovery
- **Big Idea 4:**
Early customers help spec version 2



Build the Organization Map



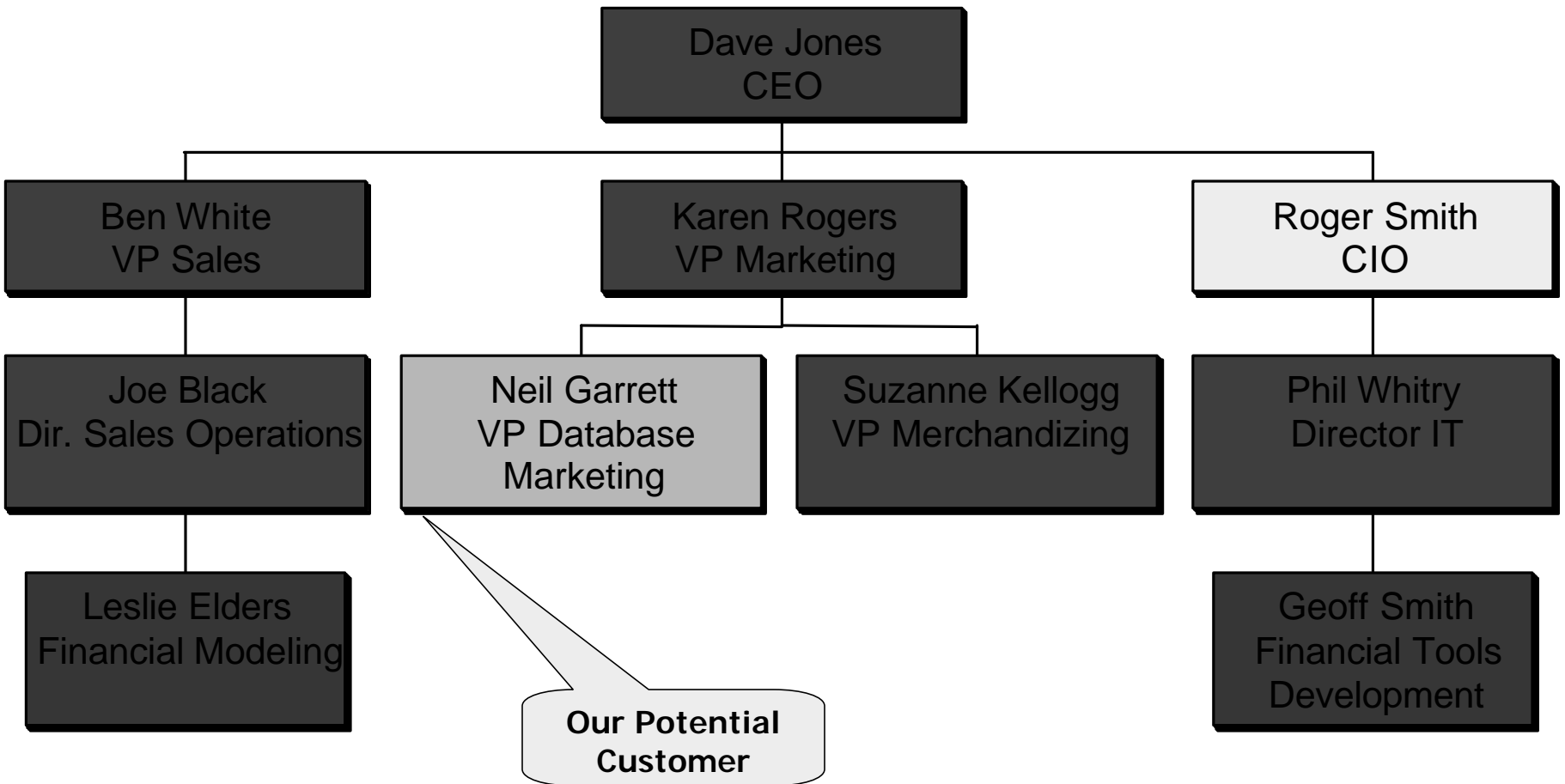
-  = in house competition
-  = issues to be addressed before a sale



Build the Organization Map: One Step at A Time



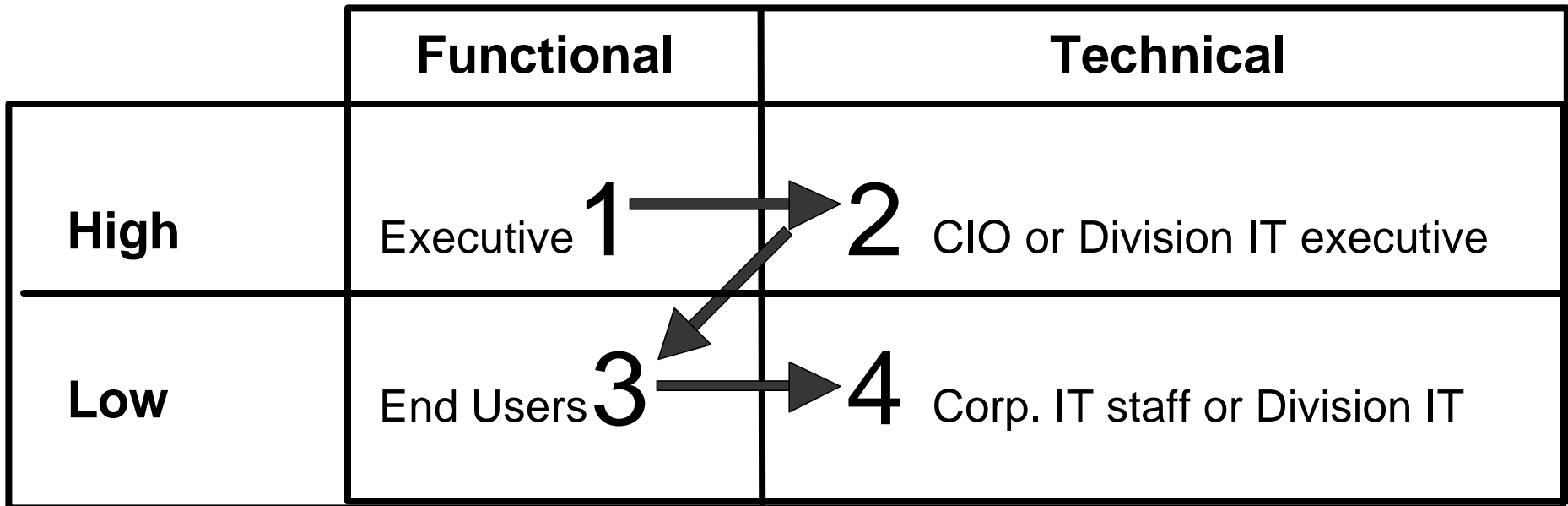
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Organization Map



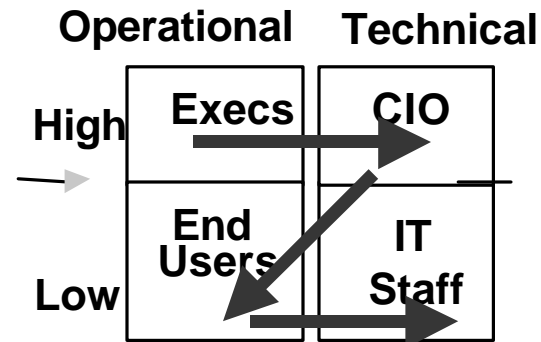
-  = in house competition
-  = issues to be addressed before a sale

The Influence Map

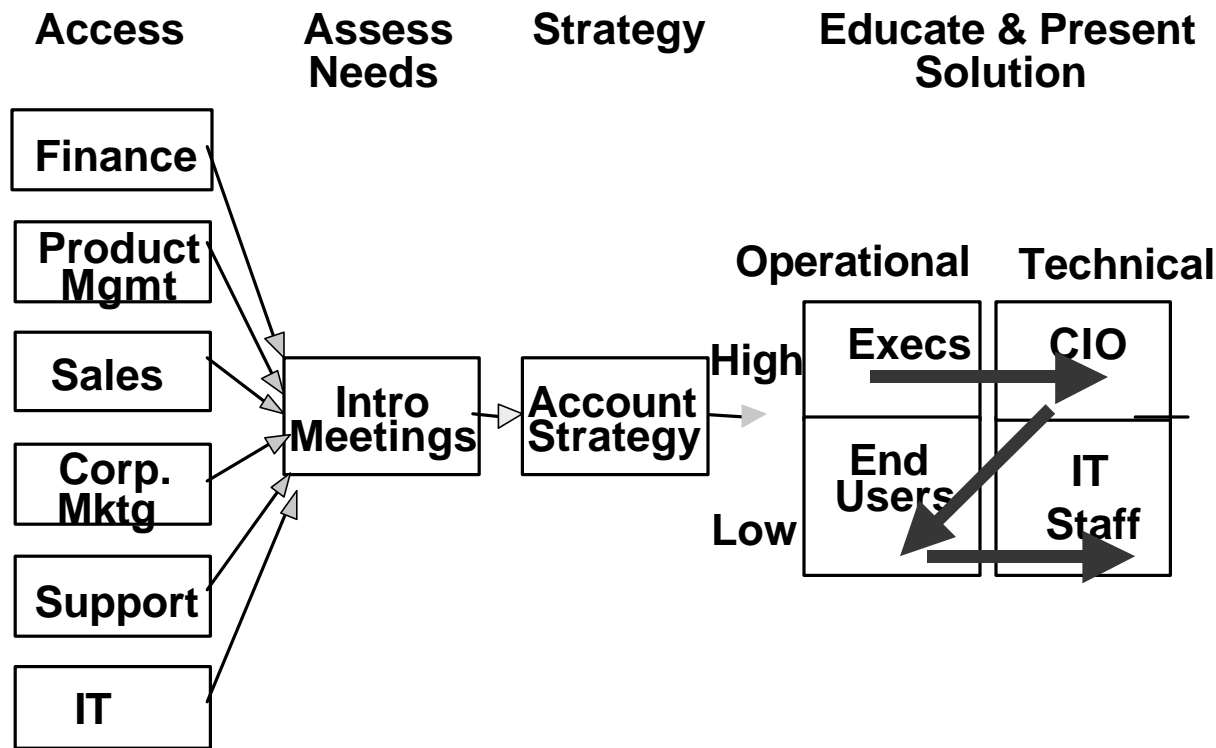


The Sales Model: Starts with What You've Learned

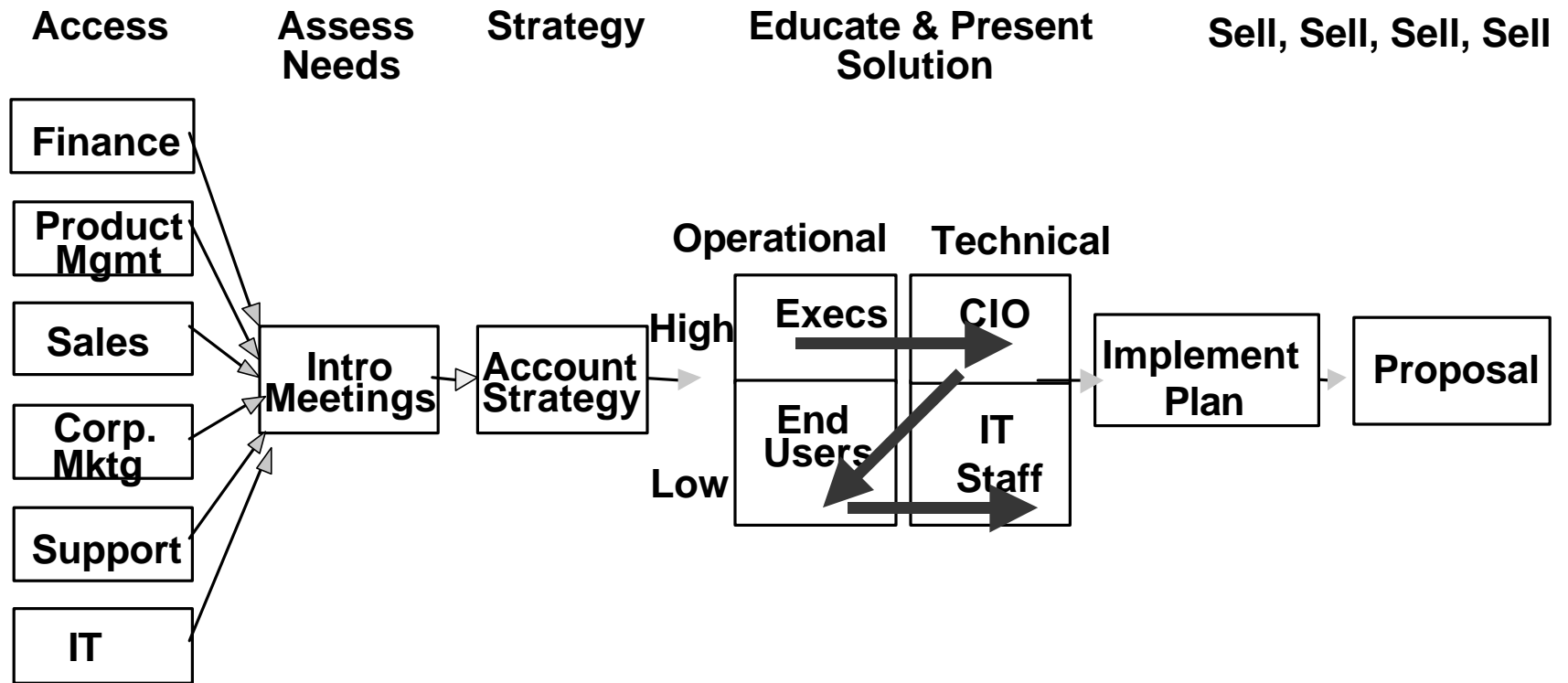
Educate & Present
Solution



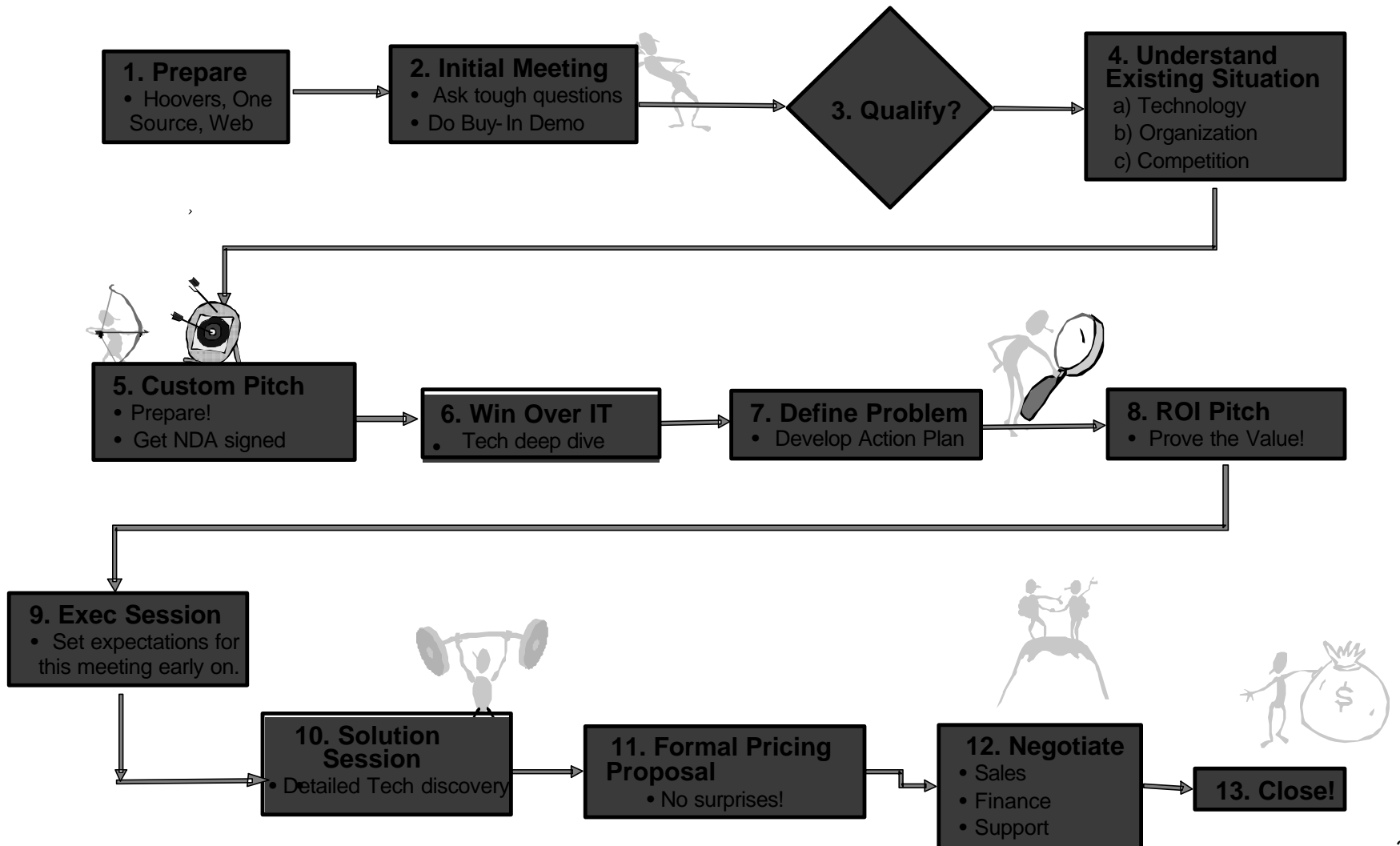
The Sales Model: Adds Access, Assessment & Strategy



The Sales Model



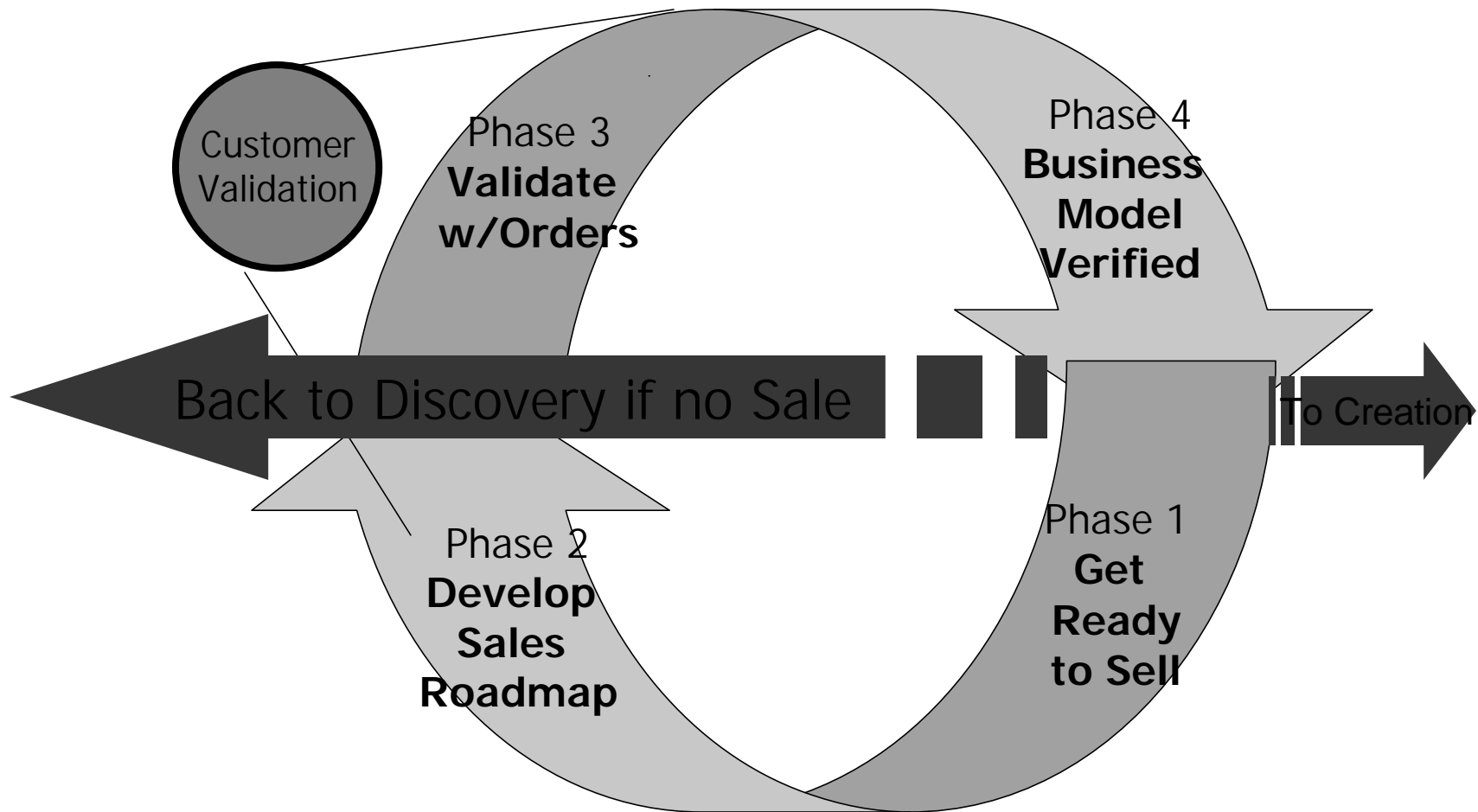
The Sales Pipeline



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

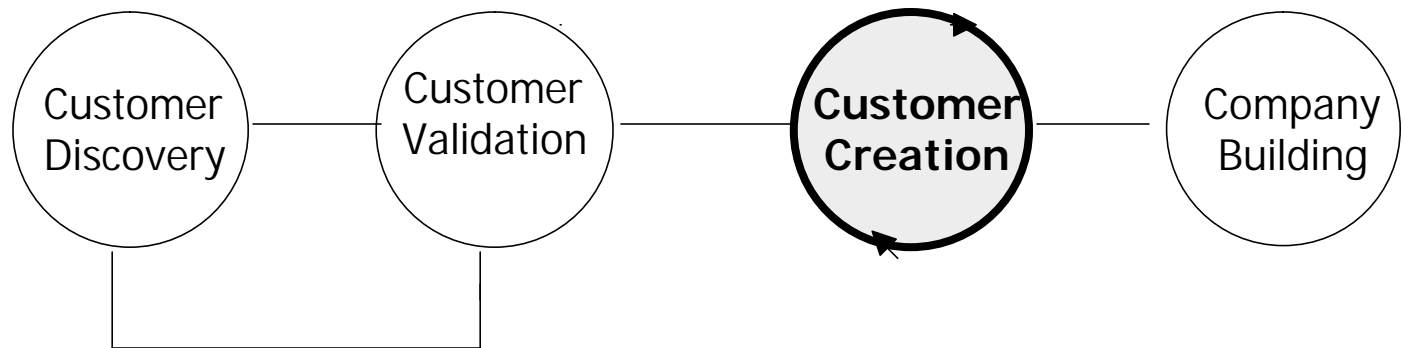


Customer Validation: Exit Criteria

- **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?**

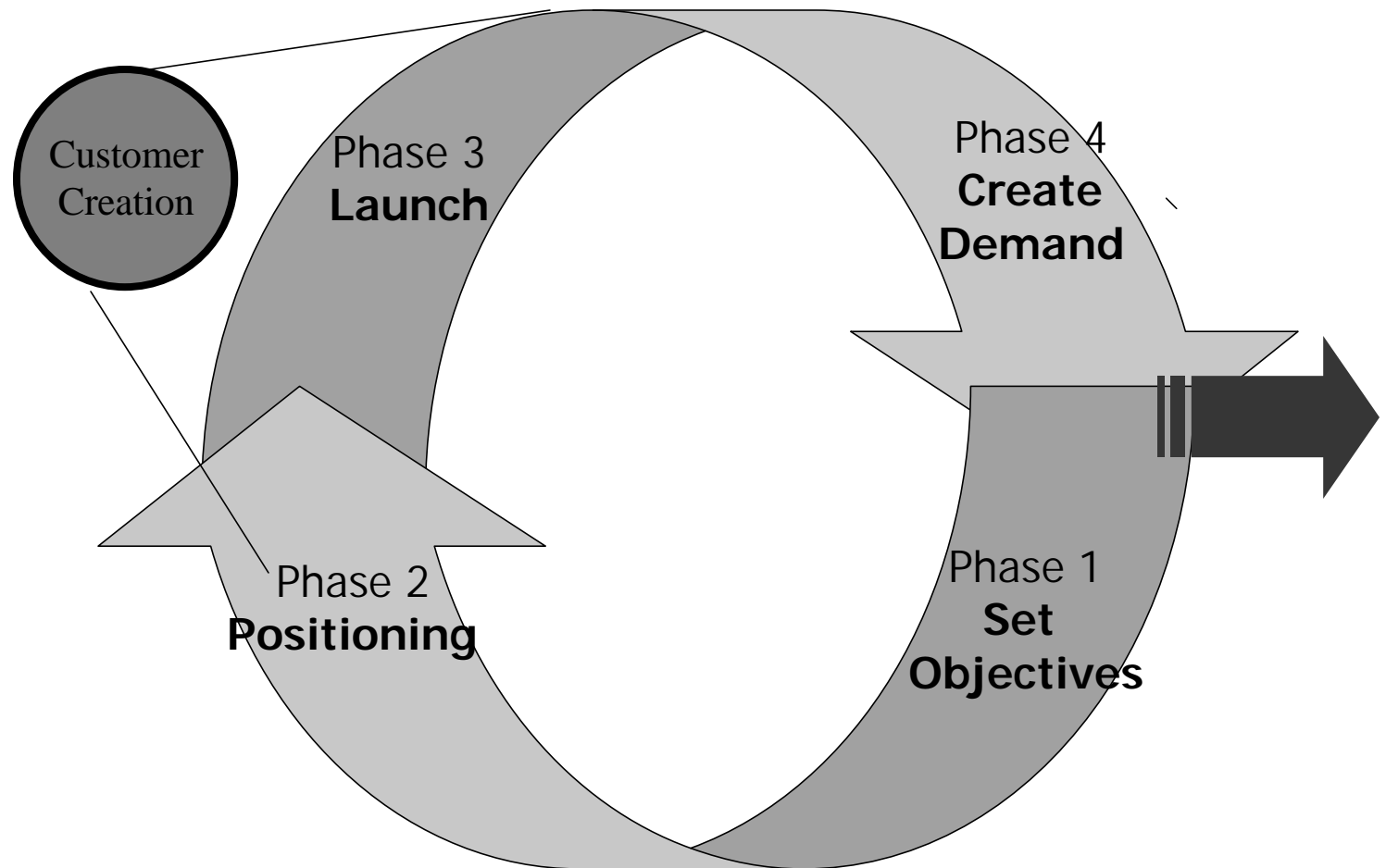
Customer Creation:

Step 3



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

Customer Creation: 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: Four Activities

	Year 1 Objectives	Positioning	Demand Creation	Launch
Existing Market				

Customer Creation: Four Activities

	Year 1 Objectives	Positioning	Demand Creation	Launch
Existing Market	<ul style="list-style-type: none">• Market share	<ul style="list-style-type: none">• Differentiation & credibility• Product differentiation	<ul style="list-style-type: none">• Create/drive demand into sales channel	<ul style="list-style-type: none">• Credibility/delivery• Existing basis of competition

Customer Creation: Four Activities

	Year 1 Objectives	Positioning	Demand Creation	Launch
Existing Market	<ul style="list-style-type: none"> • Market share 	<ul style="list-style-type: none"> • Differentiation & credibility • Product differentiation 	<ul style="list-style-type: none"> • Create/drive demand into the sales channel 	<ul style="list-style-type: none"> • Credibility / delivery • Existing basis of competition
Reframing Existing Market	<ul style="list-style-type: none"> • Market reframing + new market share 	<ul style="list-style-type: none"> • Segmentation & innovation • Redefining existing market & product differentiation 	<ul style="list-style-type: none"> • Educate market on change • Drive demand into channel 	<ul style="list-style-type: none"> • Segmentation, delivery and innovation • New basis of competition



Customer Creation: Four Activities

	Year 1 Objectives	Positioning	Demand Creation	Launch
Existing Market	<ul style="list-style-type: none"> • Market share 	<ul style="list-style-type: none"> • Differentiation & credibility • Product differentiation 	<ul style="list-style-type: none"> • Create/drive demand into the sales channel 	<ul style="list-style-type: none"> • Credibility / delivery • Existing basis of competition
Redefining Existing Market	<ul style="list-style-type: none"> • Market reframing & new market share 	<ul style="list-style-type: none"> • Segmentation & innovation • Redefining existing market & product differentiation 	<ul style="list-style-type: none"> • Educate market on change drive demand into channel 	<ul style="list-style-type: none"> • Segmentation, delivery and innovation • New basis of competition
New Market	<ul style="list-style-type: none"> • Market adoption 	<ul style="list-style-type: none"> • Vision & innovation in new market • Defining the new market, the need & the solution 	<ul style="list-style-type: none"> • Customer education • Drive early adopters into sales channel 	<ul style="list-style-type: none"> • Credibility & innovation • Mkt education, standards setting, & early adopters

Customer Creation: Type of Launch

	Year 1 Objectives	Launch Type
Existing Market	<ul style="list-style-type: none">• Market share	
Reframing an Existing Market	<ul style="list-style-type: none">• Market resegmentation & new market share	
New Market	<ul style="list-style-type: none">• Market adoption	

Customer Creation: Type of Launch

	Year 1 Objectives	Launch Type
Existing Market	<ul style="list-style-type: none"> • Market share 	<ul style="list-style-type: none"> • Onslaught 
Redefining Existing Market	<ul style="list-style-type: none"> • Market reframing & new market share 	<ul style="list-style-type: none"> • Education & appropriate share
New Market	<ul style="list-style-type: none"> • Market adoption 	<ul style="list-style-type: none"> • Education 

Customer Creation: Rules

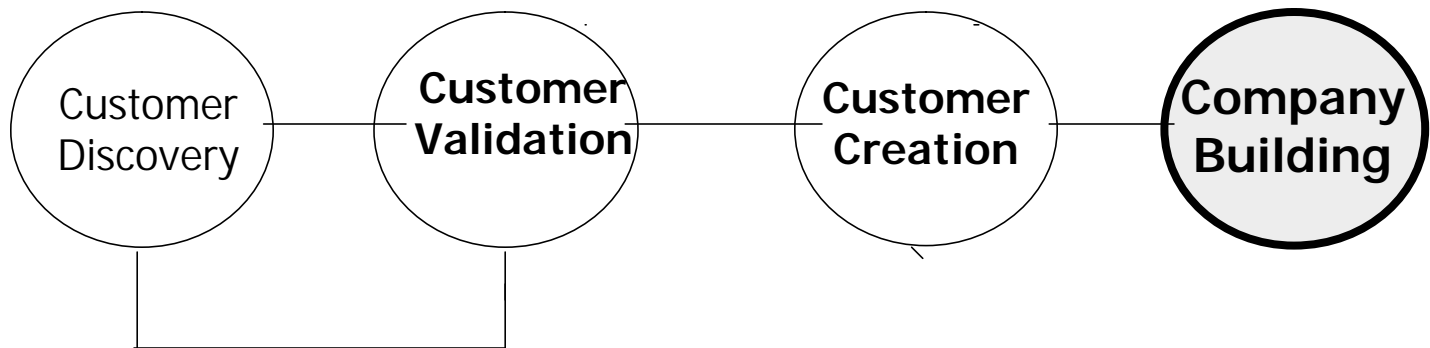
- **Rule 1:**
No demand spending until customer validation
- **Rule 2:**
Match the creation strategy to the company
- **Rule 3:**
Match the spending goals to year 1 objectives
- **Rule 4:**
You can't get customers if they aren't there

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?**

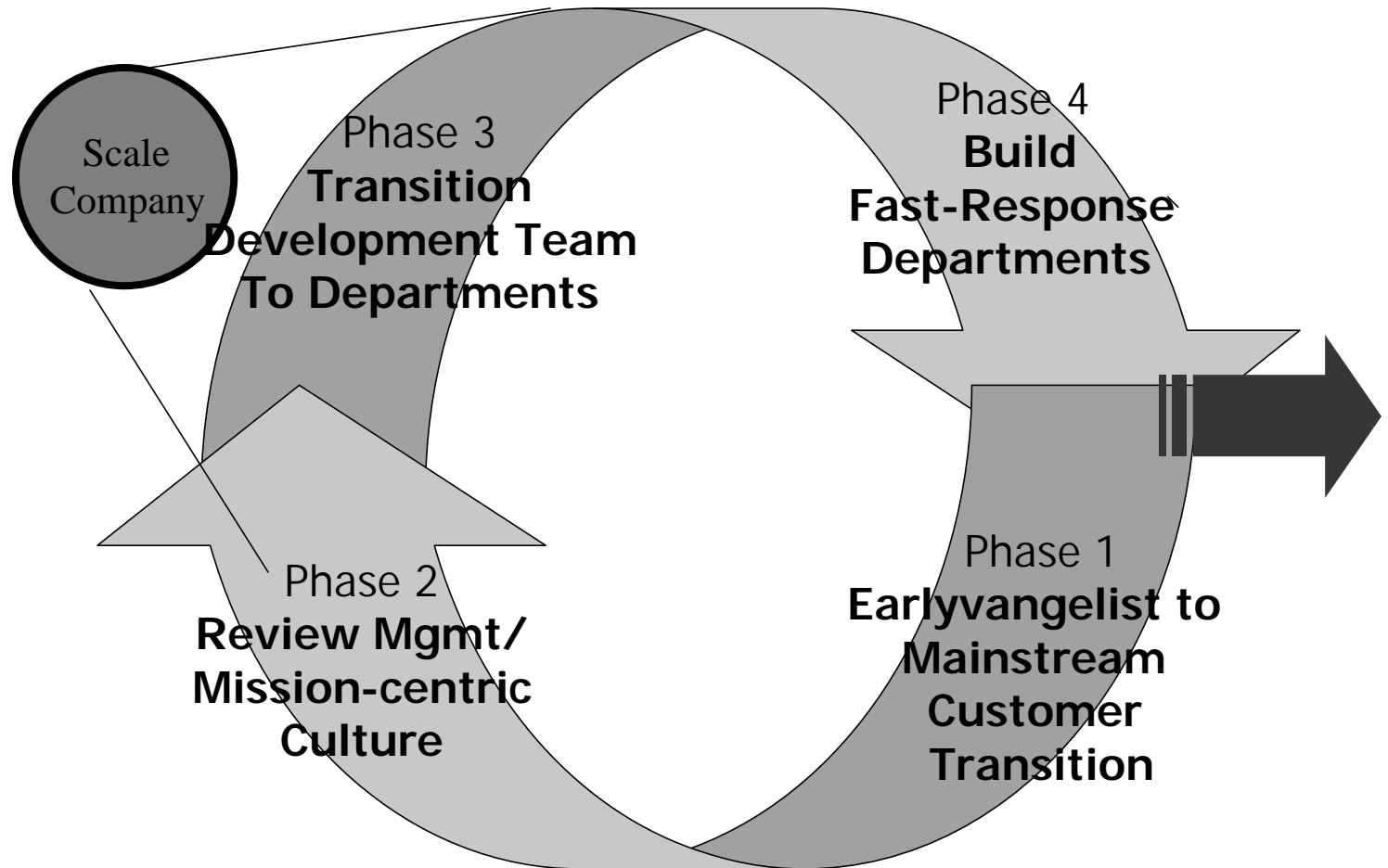
Company Building:

Step 4



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

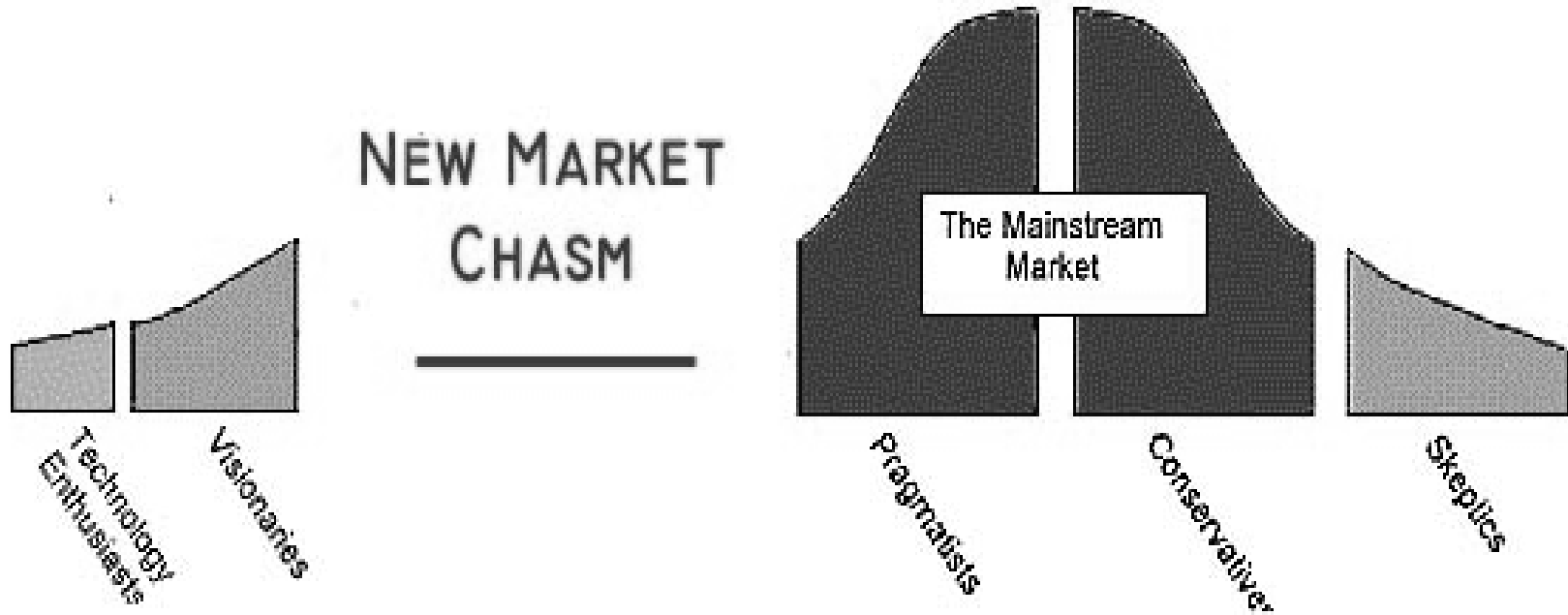
Company Building: Details



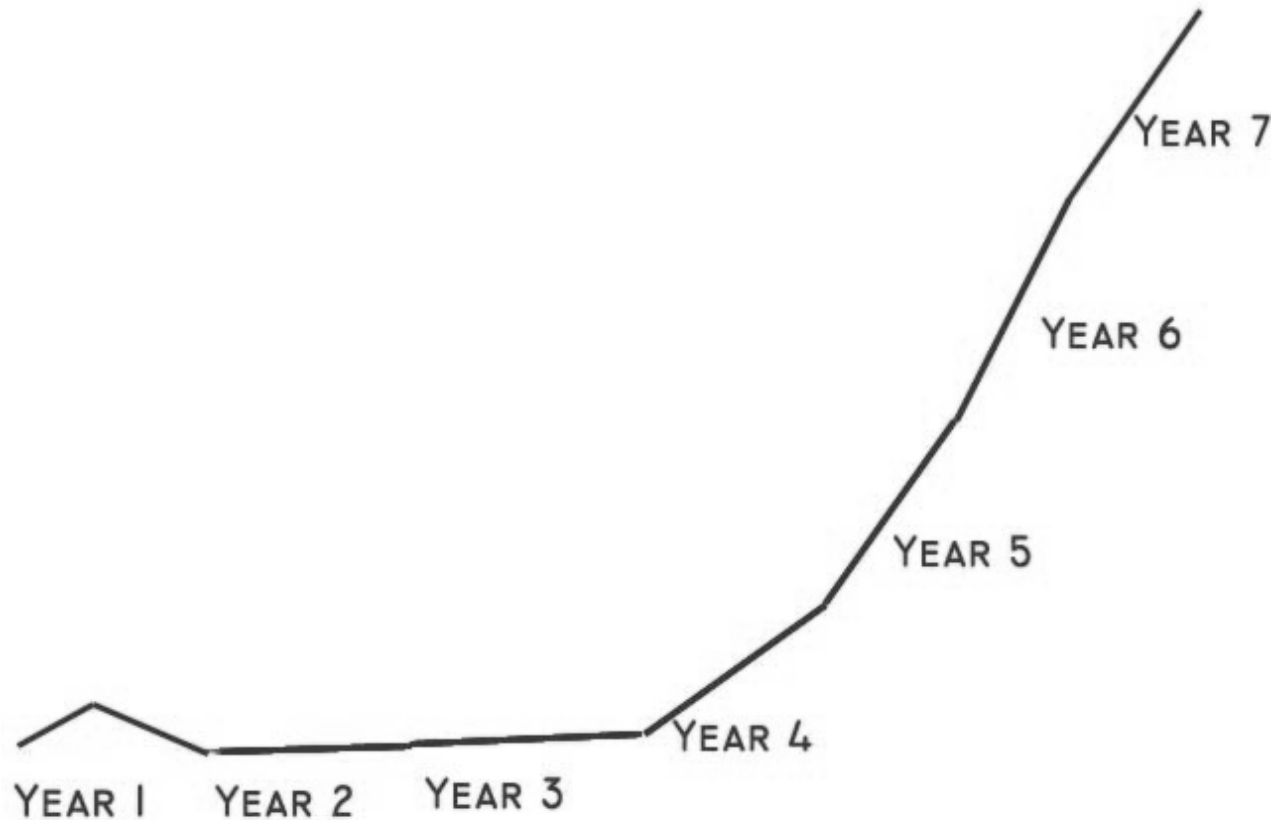
Company Building: Big Ideas

- **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 ⇒ 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

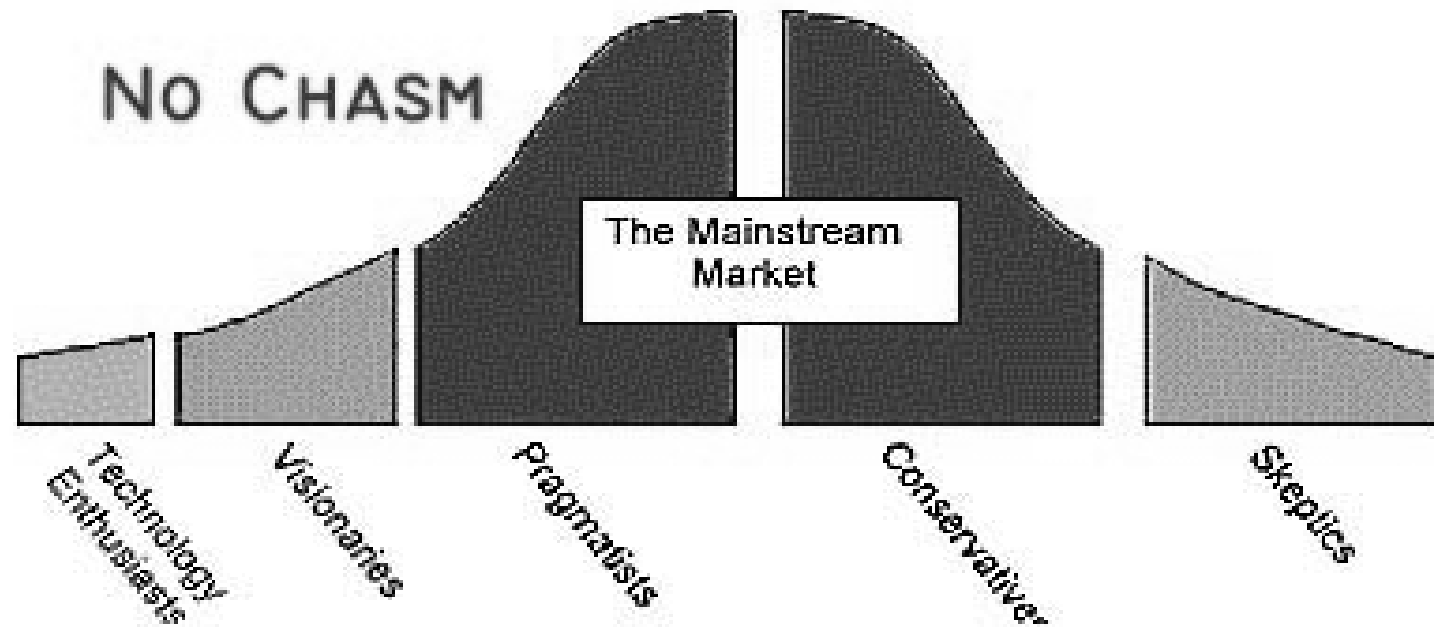
New Market Chasm



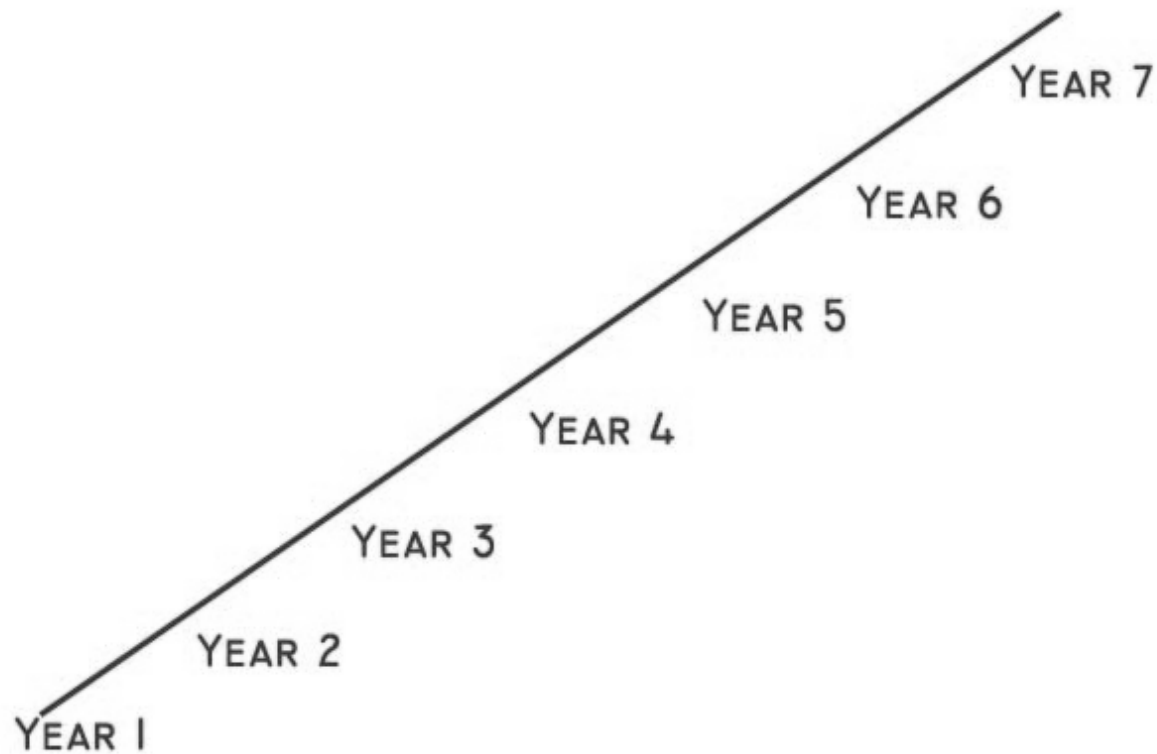
New Market = Hockey Stick Sales Curve



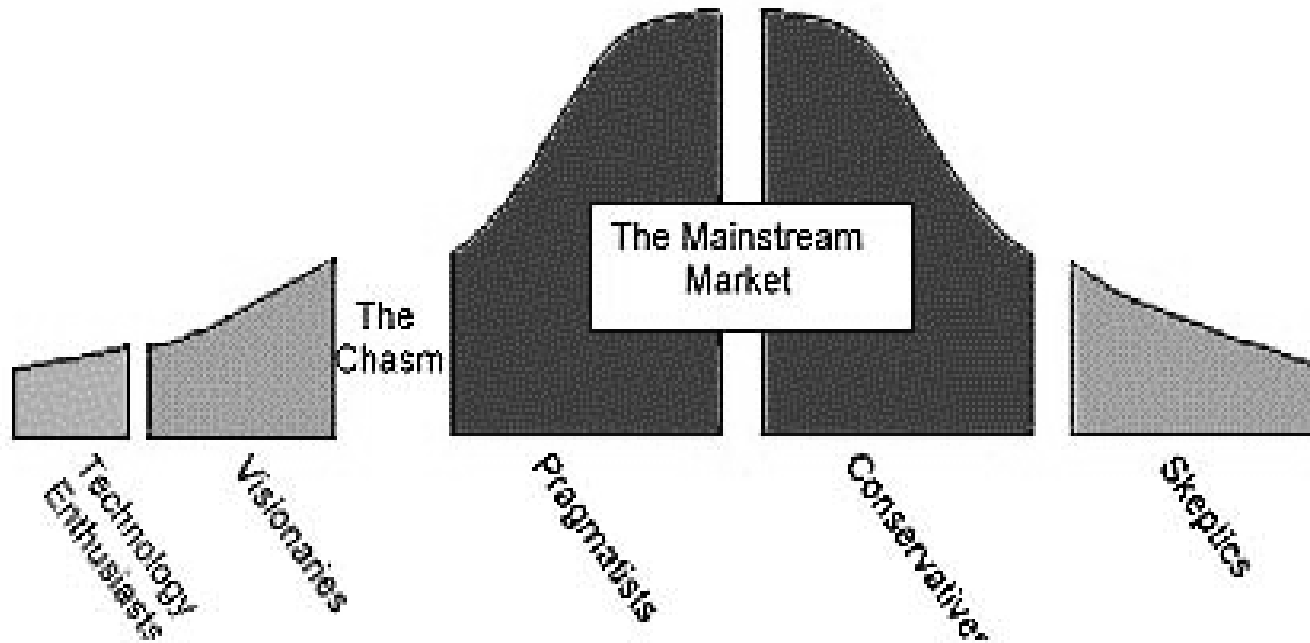
Existing Market Chasm



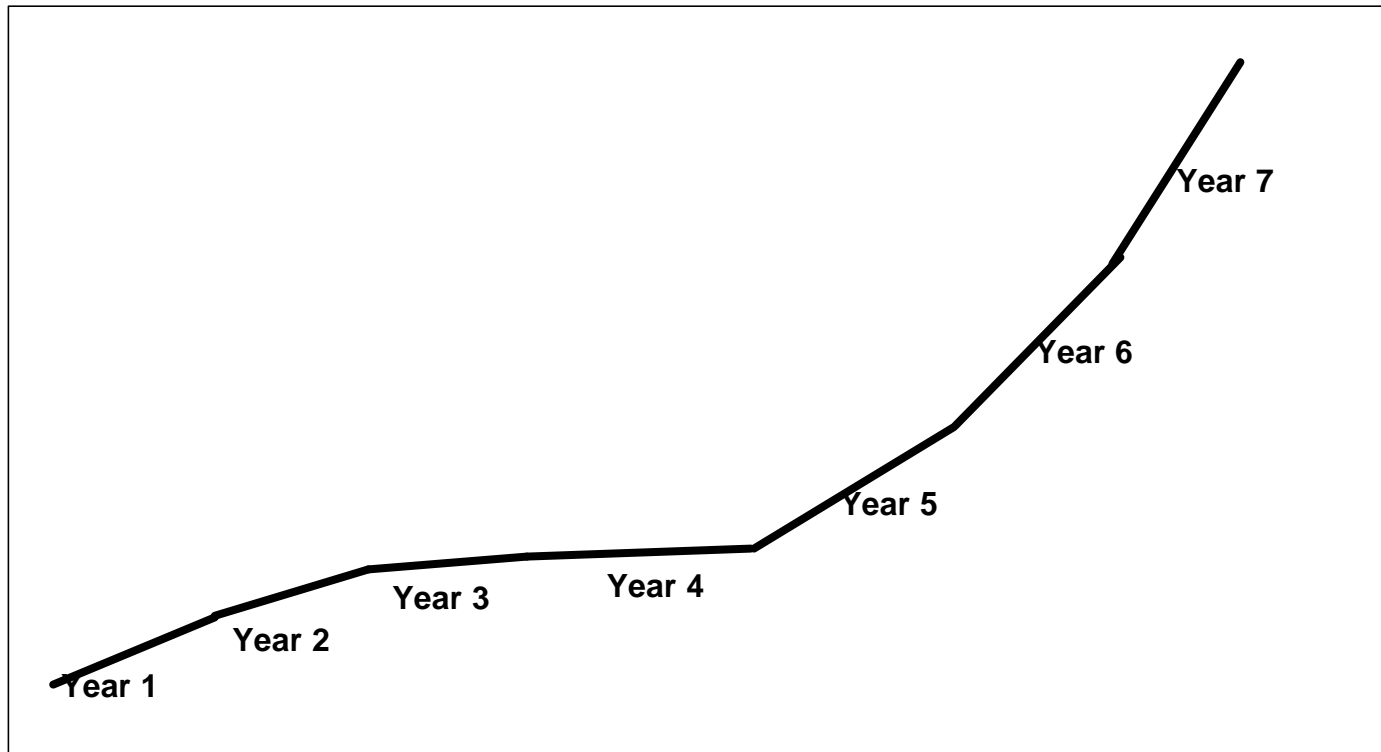
Existing Market = Linear Sales Growth



Resegmented Market Chasm



Resegmented Market = Complex Sales Growth



Evolution of Management Strategy

**Customer
Development**



**Company
Building**



**Large
Company**



Mission Culture & Fast Response Departments

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

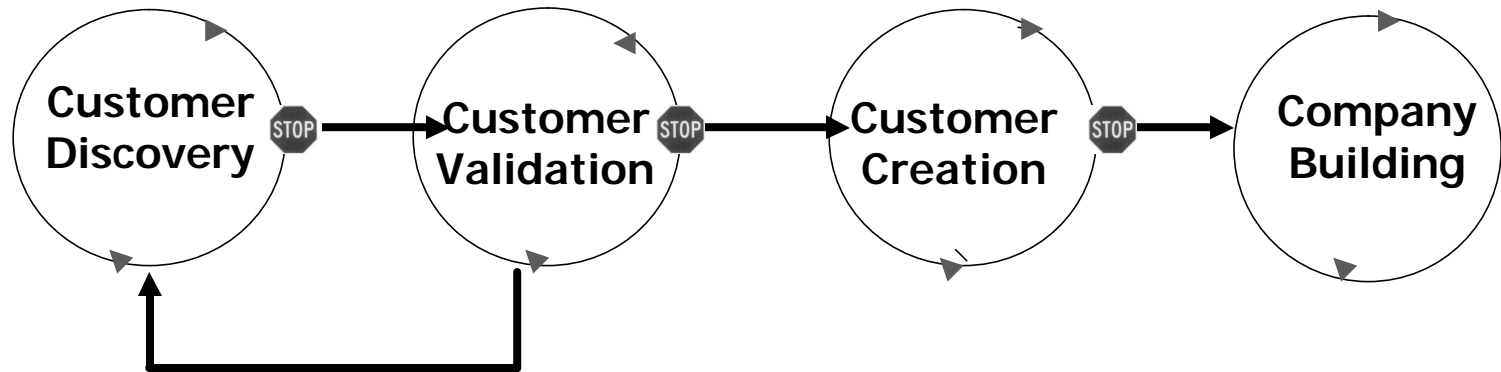
- **Organizing principle of Fast-Response Departments**
 - Based on John Boyd's OODA loops
 - Observe, Orient, Decide & Act

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



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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