Why Talk to Customers?

Nick Kolobutin
CAC = Customer Acquisition Cost

“Get Customers”

“Keep Customers”

Attrition/Churn

LifeTime Value

Earned and Paid Media

Awareness

Interest

Consideration

Purchase

Up-Sell

Cross-Sell

Referrals
Why Talk to Customers?
What is a Startup?

• A temporary organization in search of a scalable, repeatable, profitable business model

• Startups are Risky
  – Greater than 90% of products fail today

• Goal of startup is to validate its business model hypotheses (iterate and pivot until it does)
Approaches to Building a Product

• “Maximize Chances of Success”
  – Robust product with all features
  – Problem: Feedback at the end

• “Release early, and often”
  – Get as much feedback early, and as much as possible
  – Problem: Chase what customers think they want
Need More Than One Customer

–Eric Tribe, CEO
“If you are not embarrassed by the first version of your product, you've launched too late”

—Reid Hoffman, CEO
Types of Risk with our Clients

• Customer/Market Risk
  – Product fit

• Invention Risk
  – Technology feasibility
Traditional Product Development

Stage-Gate® Product Innovation Process

- Idea Screen
- Second Screen
- Build Business Case
- Go to Development
- Go to Testing
- Go to Launch
- Launch
Winners vs Losers

• Winners
  – Comfortable with ambiguity, uncertainty, doubt, fear
  – Throw out traditional product management
  – Combine *Agile Engineering* and *Customer Development*
  – Search for a business model, turn unknowns into knowns
  – Recognize their startup “vision” as a series of untested hypotheses in need of “customer proof”
  – Get in front of customers early and often

• Losers
  – Execute rigid Product Management methodology
Customer Development

- Customer Discovery
  - Problem-Solution Fit
  - Proposed MVP
  - Proposed Funnel(s)

- Customer Validation
  - Product-Market Fit
  - Business Model
  - Sales & Marketing Roadmap

- Customer Creation
  - Scale Execution

- Company Building
  - Scale Organization
  - Scale Operations

- pivot

- Process to organize the search for the business model
... just a set of hypotheses
Getting the answers is easy.
Asking the right questions is hard.
Who should develop the Business Model?

- Founders, not employees
- No room for “idea” people
How do I Find a Successful Business Model?

• Hint:
  – It’s not in the office

• The best way to search is for the founders themselves to get out of the building to gain a deep, personal, firsthand understanding of their potential customers’ needs before locking into a specific path and precise product spec.
Webvan Case Study

• Goal to revolutionize $450 Billion grocery industry
  – Online ordering, same-day, delivery

• Dream Team:
  – Over $800 million in financial startup funds
  – Backed by experienced VCs
  – Founder with track record
  – Hired Seasoned CEO
  – First mover advantage
  – Get “big” fast
  – IPO with market capitalization of $8.5 billion
  – Executed Business Plan to a tee
Webvan Case Study

• Hired experienced executives from nations large grocery stores
• Marketing builds sales demo, sales materials (websites, presentations, data sheets), hires PR Agency
• Engineering builds product based on defined feature set
• Automated warehouses built with conveyers and carousels integrated with an order-fulfillment software
7 Months After IPO

- Bankrupt
- No failure in execution of business plan

**Problem:**

- Did not listen to customers or discover customer needs
- Revenues did not match forecast
- No Pivot
The 9 Deadly Sins of Product Development

- Assuming “I know what the customer wants”
  - A startup is a faith-based initiative built on guesses
- The “I know what features to build” flaw
- Focus on a Launch Date
- Emphasis on Execution vs Hypotheses
- Traditional Business Plans Presume no Trial and No Errors
- Confusing Traditional Job Titles with What a Startup Needs to Accomplish
- Sales and Marketing Execute to a Plan
- Presumption of Success Leads to Premature Scaling
- Management by Crisis Leads to a Death Spiral
  - Webvan VP of Sales example
Business Plans are Obsolete

• No business plan survives first contact with customers
  – Only used to obtain funding
• Failure is an integral part of the search for a business model
Customer Development

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*Process to organize the search for the business model*

Steve Blank's Customer Development by Brant Cooper; custdev.com
“A problem well stated is a problem half solved.”

—Charles Kettering, Inventor
Customer Discovery

• State Your Hypothesis
  – Problem-Solution Fit
  – Test customer perception of problem
  – Identify customer’s need to solve it

• Minimum Viable Product (MVP)
  – Show customers product
  – Incomplete products are okay!

• A PIVOT is NOT a FAILURE
How to Hypothesize

Hypothesize

Analyze/Validate

Design

Experiment

Test
How it Works
Put Yourself in Your Customer’s Shoes

• A day in the life...
Market Research Broadly Defined

“The systematic, objective, process of gathering, analyzing and interpreting information about a market, product or service to be offered for sale, and about the past, present and potential customers for the product or service; research into the characteristics, spending habits, location and needs of your business's target market, the industry as a whole, and the particular competitors you face.” — Small Business Encyclopedia, Entrepreneur.com
Why Market Research?

• Lack of a well-developed business model, including insufficient research on the business before starting it: **78% failure rate**

• 84% of small businesses claim money well spent on market research
  – 58% claimed they integrated findings into product development

Market Research

Google Search Hacks

- Filetype: pdf
- Filetype: ppt
- Filetype: doc
- Books.Google.com
- Site: [proven site]

eDonkey—search hard drives
Online Document Repositories/Marketplace for files, publications, presentations, and whitepapers

- **Slideshare** – presentation slides from conferences/events
- **Scribd, Docstoc, Edocr** – general
- **Wepapers** – focus on students
- **Twidox** – focus on academics
- **Archive.org** – Web archives
Market Intelligence Resources

ICE PRACTICE

LIFE SCIENCES

CLEANTECH

comScore
THOMSON REUTERS
luxresearch
IDC
FORRESTER
Gartner
MedTRACK
cleantech
FROST & SULLIVAN
DowJones VentureSource
EUROMONITOR INTERNATIONAL
DATAMONITOR360
bcc
MarketLine
UNIVERSITY OF TORONTO
Tools

• Social media dashboard to track competitors

• A repository to get teams on the same page with competitive info, partners, market trends

• Download competitors profitable keywords from AdWords campaigns
Primary Research

• Test market with landing page and Google AdWords

• Set up a web page in minutes, to test and validate your customer problem and willingness to pay
Case Study

- Wanted to build his own Jelly Fish tank but would cost $25,000 worth of parts
- Had a hunch others might want one
- Created test website and spent $100 on Google Adwords
- Sold a $25,000 jellyfish tank
- Now sells units for $500
Blogging

• Blog around topic, build followers, find early adopters
• Put market research to use, become SME
Punchbeta

• Real-time website analytics tool to see where customers are leaving your site
Who is an Ideal First Customer?

• Earlyvangelist
  – Visionary customers who buy unfinished/untested products, fall in love with idea of product
  – Happy to pay for early access
  – Early or eager accelerators of viral growth
  – Why?
Earlyvangelist Characteristics

- 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
Where do I meet these Earlyvangelists?

- They are closer than you think! Network!
- Tradeshows
- LinkedIn
- Via co-workers
- Past colleagues
How to Win Support for your Idea?

• Make it imperfect
  – Makes it less likely someone else will run with it and be comfortable presenting

• Customers feel a part of the process

• ‘Perfect’ solutions inspire critique
Minimum Viable Product (MVP)

- Perfection by Subtraction
- Build the smallest possible feature set
- Agile Engineering, incremental product build
Remember this?

–Eric Tribe, CEO
Value Proposition

VALUE PROPOSITION
COMMON MISTAKES

PRODUCT SPEC

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- It's just a feature of someone else's product
- It's “nice to have” instead of “got to have”
  - prioritize pains and gains
- Not enough customers care
Cold Calling

- Use social media to turn cold into warm
- Use industry associations
- Find relevant and timely news they appeared in
- Use relevant market research and stats
- WIIFM
- Ego Boost
- Other’s Credibility - Media
Lessons

• The search for a business model is at the front of the startup process
• Goal is to find a repeatable/scalable business model and execute it
• No customers, no business
• Interact with customers early and often to save time and money
• Ask questions!
Questions to Ask

• Why customers don’t buy
• Why did customers buy
• It’s difficult when caught up to follow these principles, leverage outside organizations or people to hold you to milestones and these concepts
What the Innovation Centre can Do

• Help identify the problem
• Assist identifying customers
• Provide outside assistance and fresh, honest perspective
• Advisory Board Program
Additional Resources

Steve Blank

THE STARTUP OWNER’S MANUAL
The Step-by-Step Guide for Building a Great Company

Business Model Generation
Upcoming Events

• Social Media Strategy – May 15th

The Secret Angel Event
$30,000

BizKid$Camp
Nick Kolobutin
Commercialization Specialist
96 High Street, Suite 300
Thunder Bay, ON P7A 5R3
Phone: 807-768-6682
Email: nick@nwoinnovation.ca

Supported By:

Twitter: noic_innovate
facebook.com/NWOInnovation
What is a business model?

9 Components...

1. Value Propositions
2. Customer Segments
3. Channels
4. Customer Relationships
5. Revenue Streams
6. Key Resources
7. Key Activities
8. Key Partners
9. Cost Structure

How a company creates value for itself while delivering products or services for customers.
Customer Development Model

**Customer Discovery**
- State your Hypotheses
  - Product
  - Customer & Problem
  - Distribution & Pricing
  - Demand Creation
  - Market Type
  - Competitive
- Test “Problem” Hypothesis
  - Friendly First Contacts
  - “Problem” Presentation
  - Customer Understanding
  - Market Knowledge

**Customer Validation**
- Get Ready to Sell
  - Articulate a Value Proposition
  - Prelim. Sales & Collateral Material
  - Prelim Sales Roadmap
  - Hire a “Sales Closer”
  - Align Execs
- Sell to “Early Vangelists”
  - Contact Early Vangelists
  - Sell to Early Vangelists
  - Refine Sales Roadmap
  - Sell to Channel Partners
  - Refine Channel Roadmap

**Customer Creation**
- Get Ready
  - Market Type Questionnaire
  - Choose Market Type
    - Existing/Re-segmented/New
  - Choose 1st Year Objectives
- Position
  - Select PR Agency
  - Positioning Audits
  - Match Positioning to Market Type

**Company Building**
- Mainstream Customers
  - Early Vangelists to Mainstream
  - Manage Sales by Market Type
- Management/Culture
  - Review Management
  - Develop Mission Centric Culture
- Functional Departments
  - Set Dept. Mission Statement
  - Set Dept. Roles by Market Type
- Fast Response Dept’s
  - Implement Mission-centric Mgmt
  - Create an “Information Culture”
  - Build a “Leadership Culture”

**Develop Positioning**
- Product Positioning
- Company Positioning
- Present to Analysts & Influencers

**Launch**
- Select Launch Type
- Select Customer Audiences
- Select the Messengers
- Craft the Messages
- Understand Message Context
- Understand the Media
- Measure success

**Verify**
- Verify the Problem
- Verify the Product
- Verify the Business Model
- Iterate or Exit

**Verify**
- Verify the Product
- Verify the Sales Roadmap
- Verify the Channel Roadmap
- Verify the Business Model
- Iterate or Exit

**Create Demand**
- Select Demand Creation Strategy
- Agree on Measurements
- Iterate or Exit