

The Customer Development Methodology

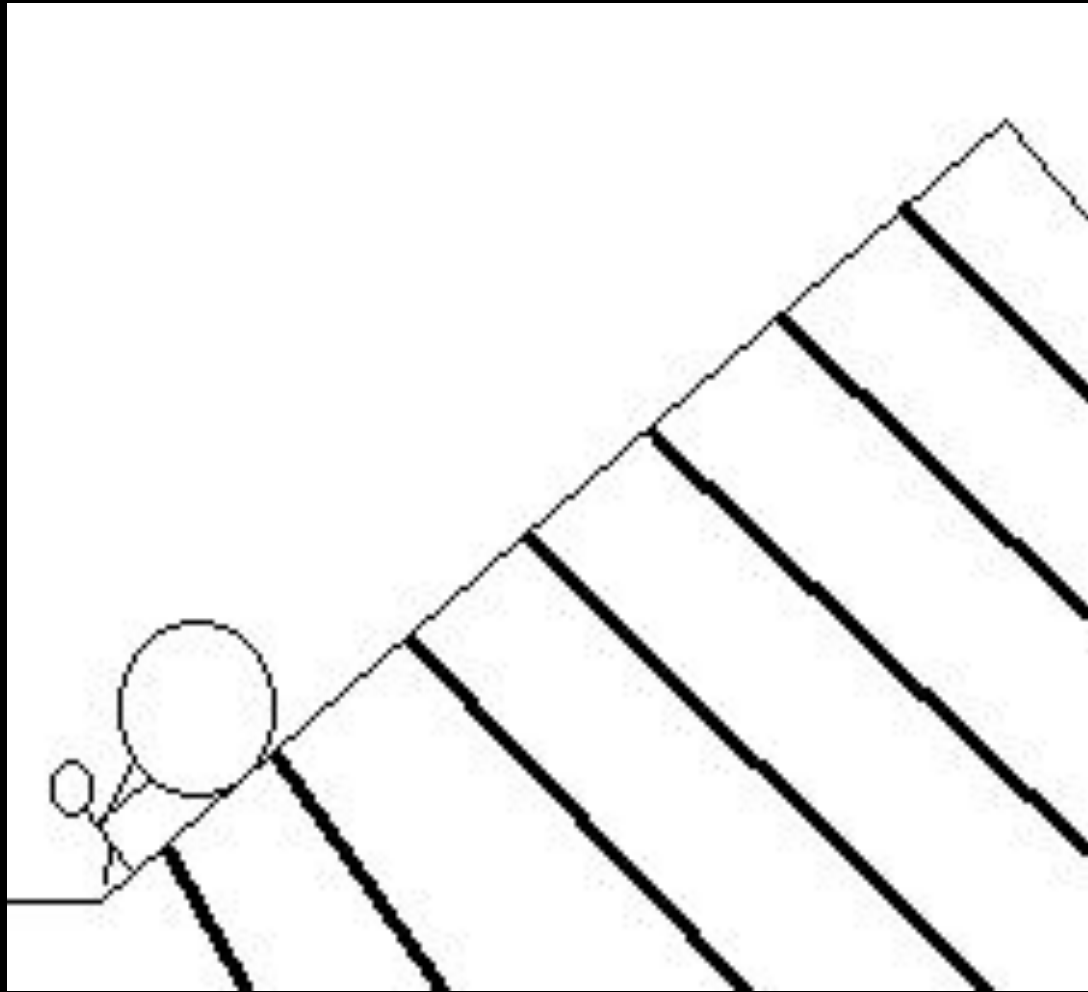
ENGINEERING 140A
Management of Technology Ventures
Session 7

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Presentation Goals

- **A new model for early stage ventures**
- **Introduce the Customer Development model**

An Analytical View of Early-Stage Ventures



MIPS

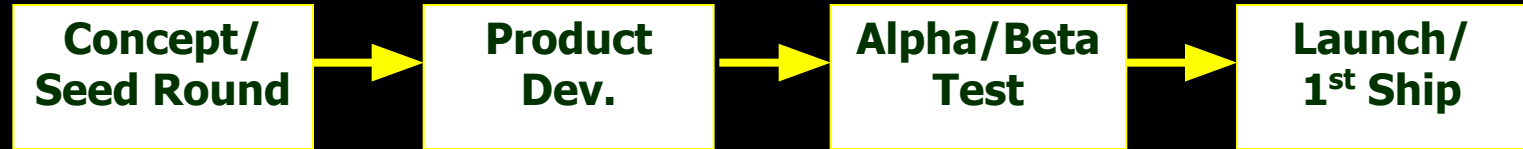
Build It And They Will Come

- **Only true for life and death products**
 - i.e. Biotech Cancer Cure
 - Issues are development risks and distribution, not customer acceptance
- **Not true for most other products**
 - Software, Consumer, Web, Services
 - Issues are customer acceptance and market adoption
- **Market Risk vs. Technology Risk**

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

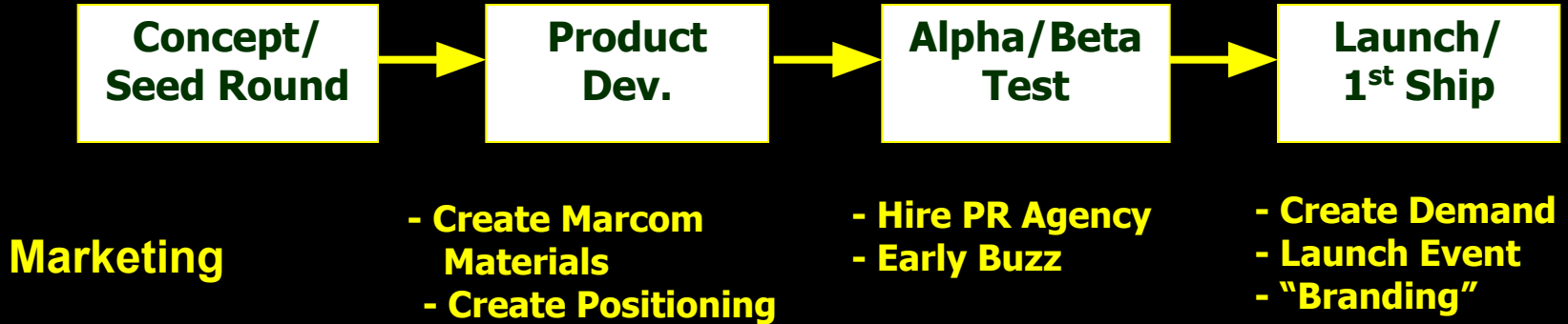
- **We have process to manage product development**
- **We have no process to manage customer development**

Product Development Model



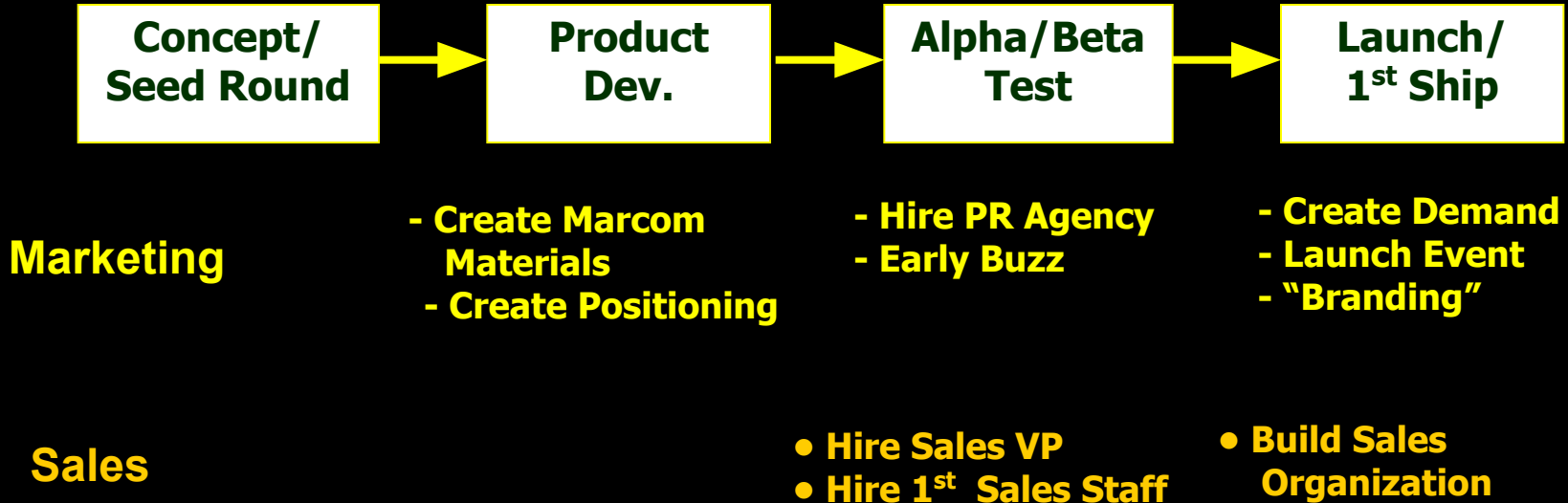
What's Wrong With This?

Product Development



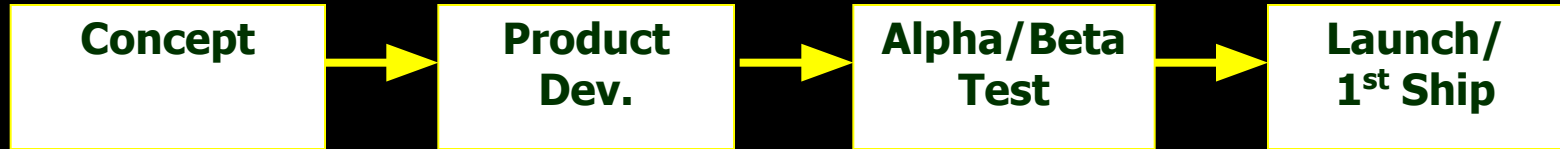
What's Wrong With This?

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 Sales VP or Country Manager
- Pick distribution Channel

- Build Sales Channel / Distribution

Business Development

- Hire First Bus Dev

- Do deals for FCS

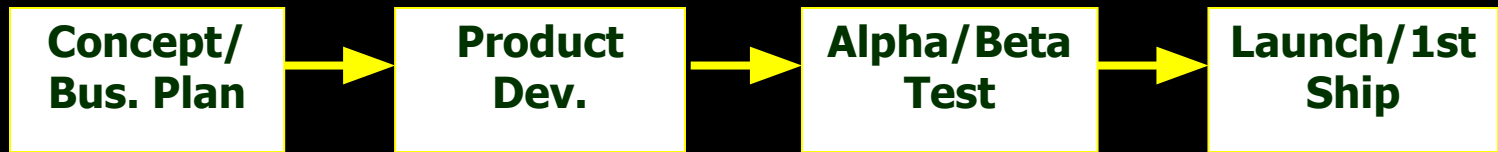
An Inexpensive Fix

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

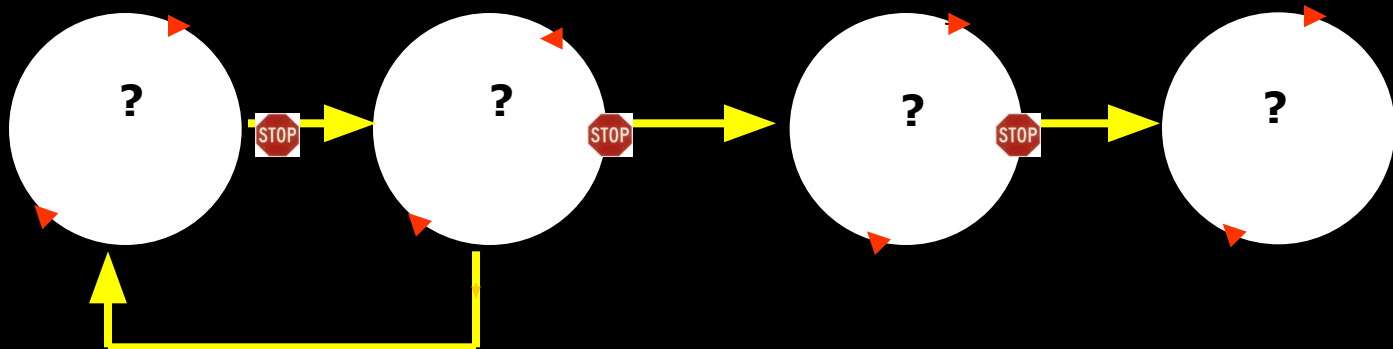
How?

Build a **Customer** Development Process

Product Development

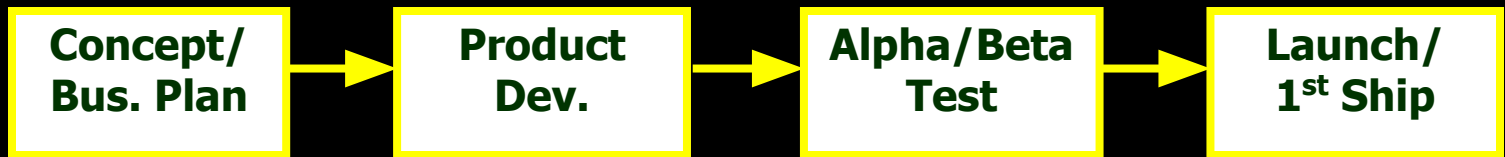


Customer Development

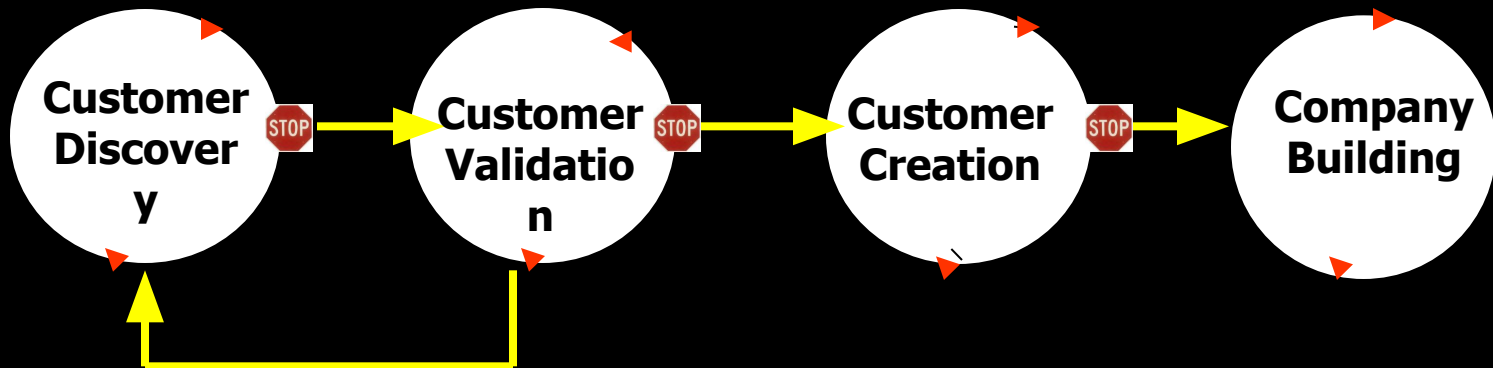


Customer Development is as important as Product Development

Product Development



Customer Development

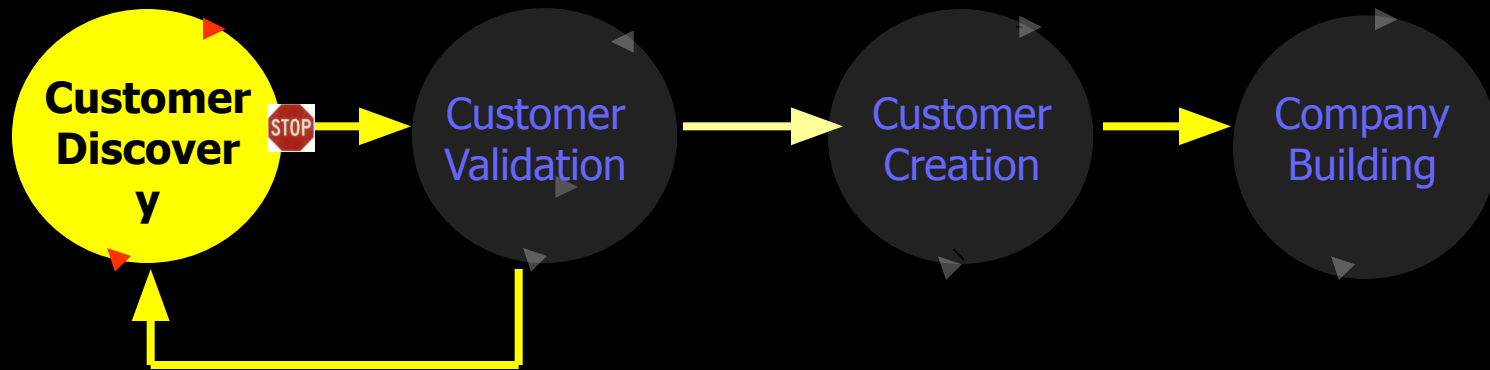


Customer Development:

Big Ideas

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

Customer Discovery: Step 1



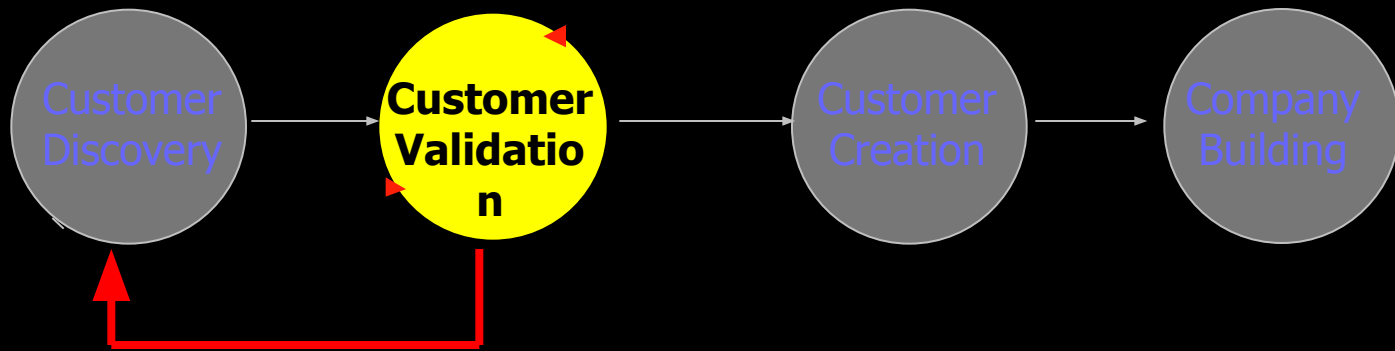
- **Stop selling, start listening**
 - There are no facts inside your building, so get outside
- **Test your hypotheses**
 - Two are fundamental: problem and product concept

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:

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?**

Sidebar

Market Type

The Three Types of Startups

Three Types of Markets

Existing Market

**Resegmented
Market**

New Market

Three Types of Markets

Existing Market

Resegmented
Market

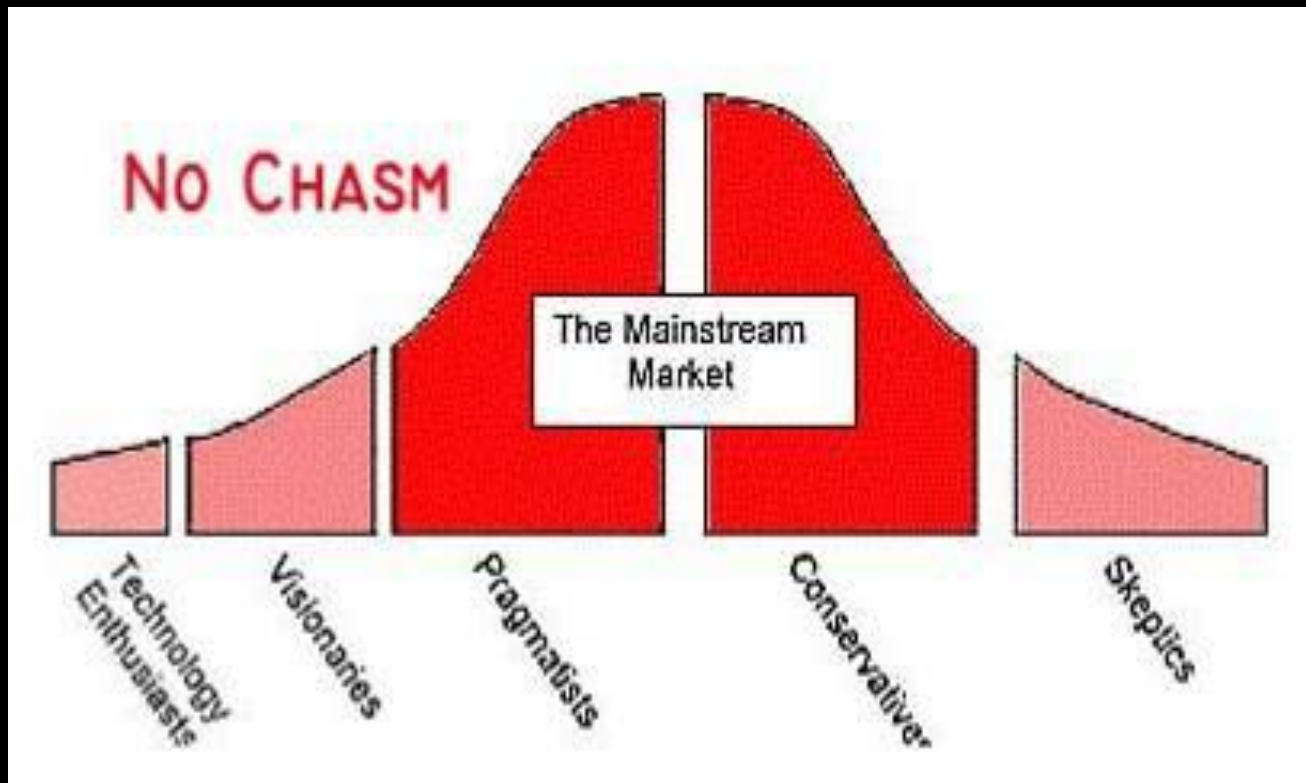
New Market

- **Market Type effects everything you do in this step**
 - **Positioning**
 - **Branding**
 - **Spending**
 - **Launch**

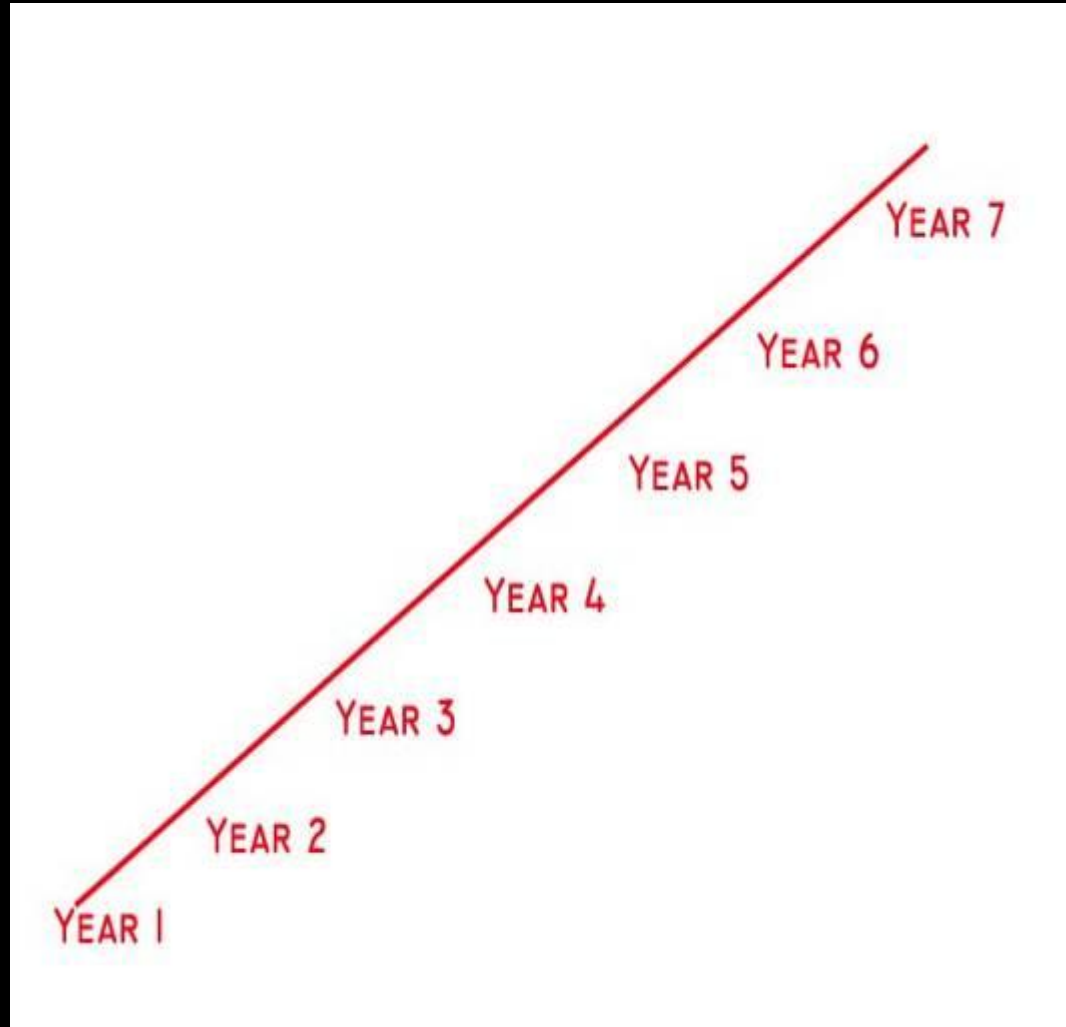
Existing Market Definition

- **Are there customers in the current market who:**
 - **Need the most performance possible?**
- **Existing Market**
 - **Faster/Better = High end**

Existing Market Chasm



Existing Market = Linear Sales Growth



Resegmented Market Definition

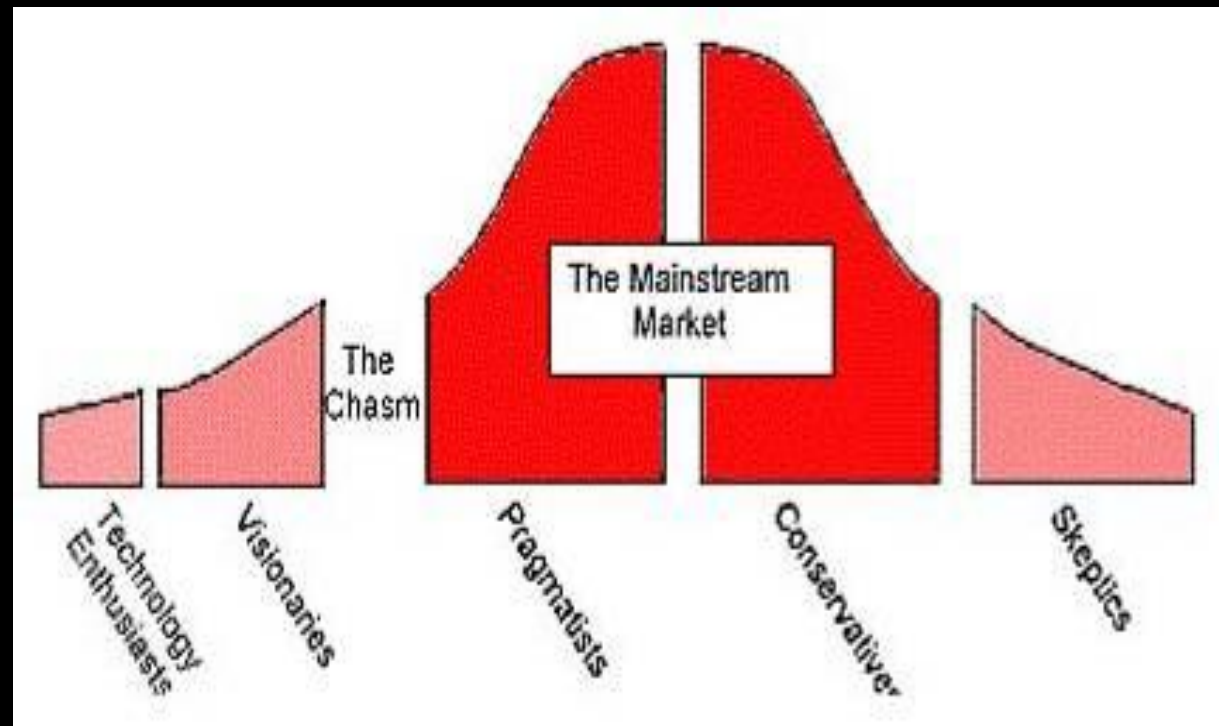
Low End

- **Are there customers at the low end who:**
 - **Would buy less (but good enough) performance**
 - **if they could get it at a lower price?**
- **Resegmented Market 1**
 - **Cheaper = low end**

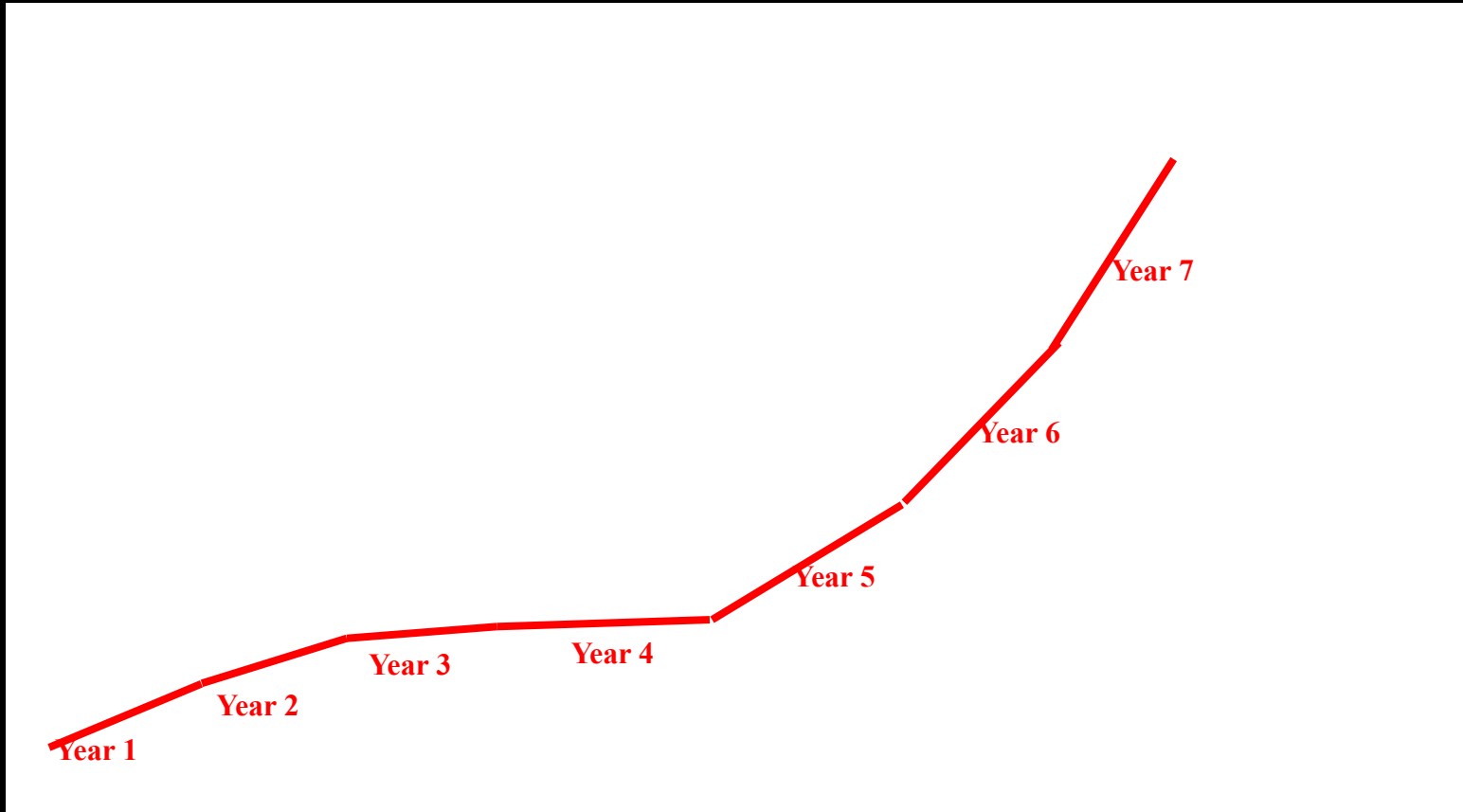
Resegmented Market Definition Niche

- **Are there customers in the current market who:**
 - buy the same product if it addressed their *specific* needs
 - if they could get it at the same price?
 - If it cost more?
- **Resegmented Market 2**
 - Niche = marketing/branding driven

Resegmented Market Chasm



Resegmented Market = Complex Sales Growth



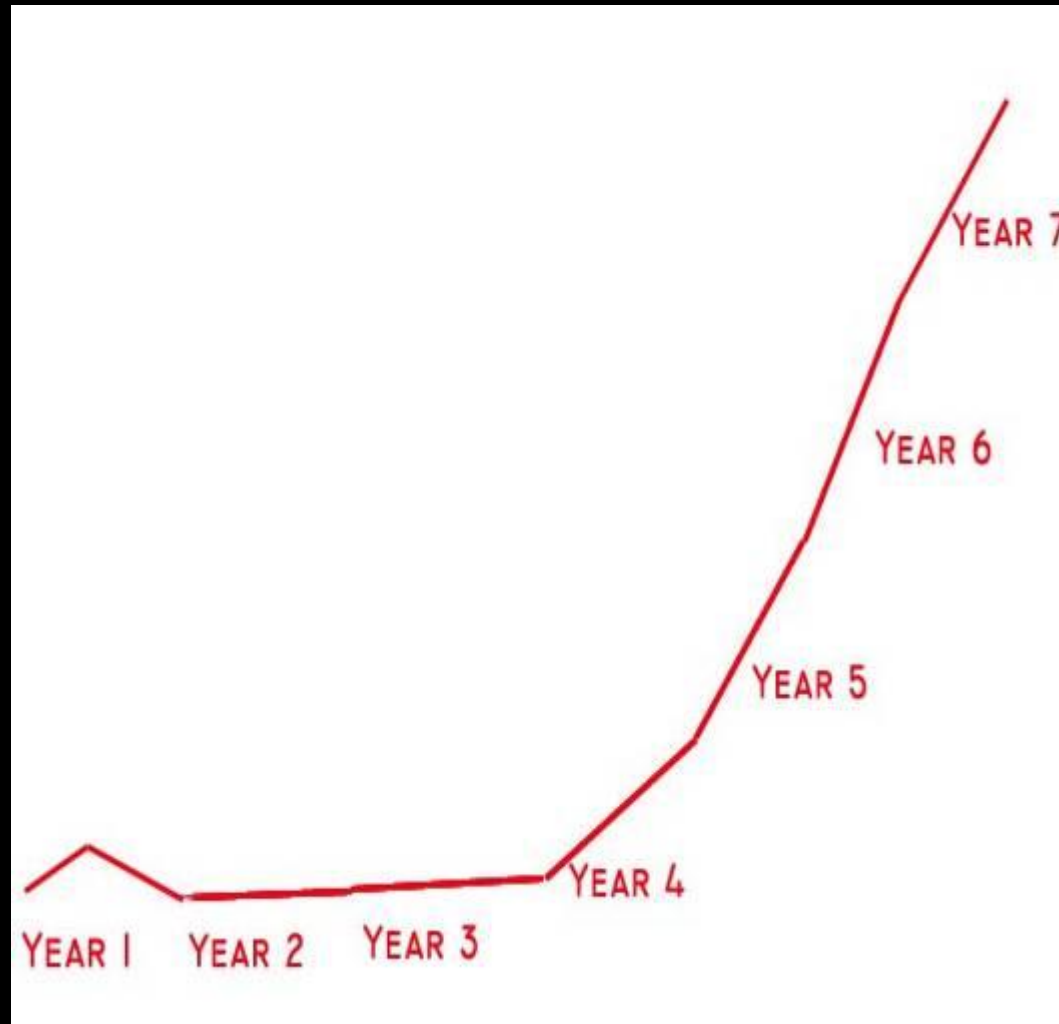
New Market Definition

- Is there a large customer base who *couldn't do this before*?
 - Because of cost, availability, skill...?
- New Market
 - Cheaper/good enough can create a new class of product/customer
 - Innovative/never existed before

New Market Chasm



New Market = Hockey Stick Sales Curve

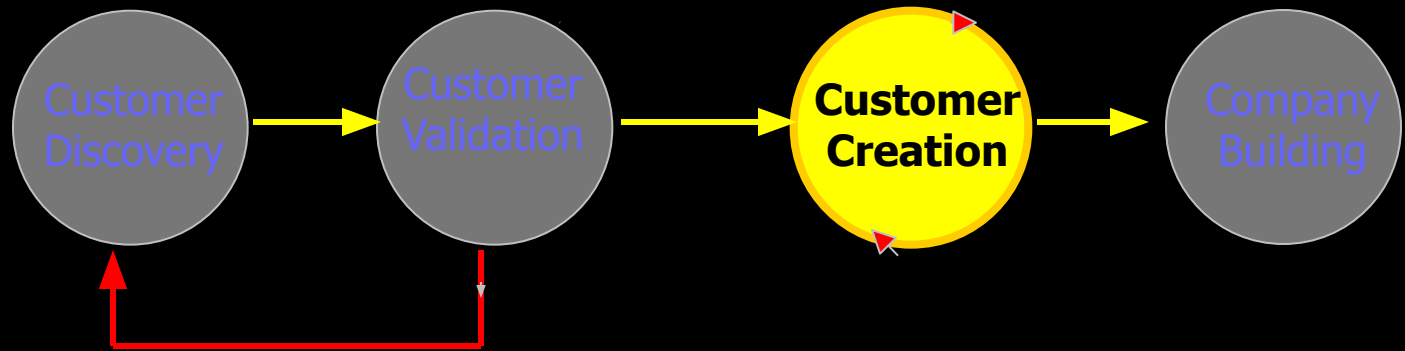


End of Sidebar

MIPS

Customer Creation

Step 3



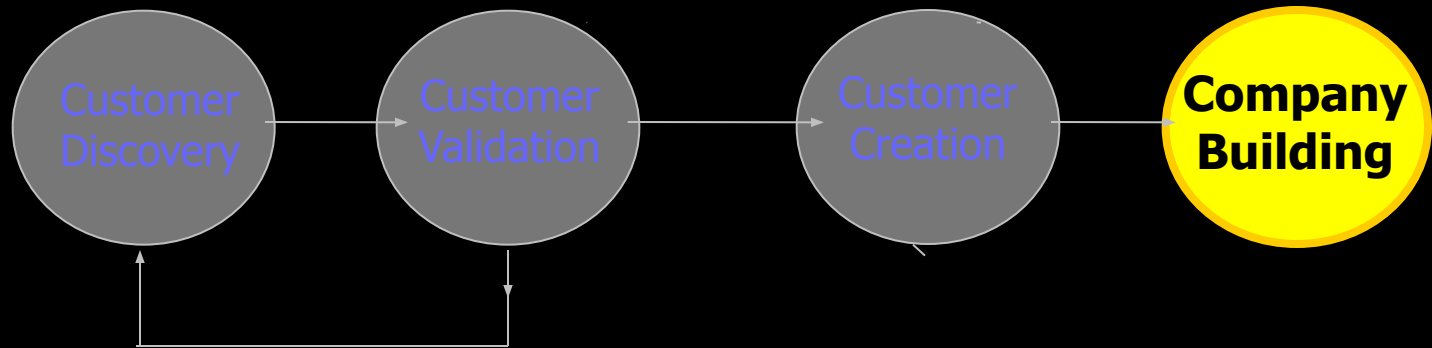
- **Creation comes after proof of sales**
- **Creation is where you “cross the chasm”**
- **It is a strategy not a tactic**

Customer Creation

Big Ideas

- **Big Idea 1: Grow customers from few to many**
- **Big Idea 2: Four Customer Creation activities:**
 - Year One objectives
 - Positioning
 - Launch
 - Demand creation
- **Big Idea 3: Creation is different for each of the three types of startups**

Company Building: Step 4



- **(Re)build your company's organization & management**
- **Re look at your mission**

Company Building: Big Ideas

- **Big Idea 1:**
Management needs to change as the company grows
 - Founders are casualties
 - Development centric ⇒
 - Mission-centric ⇒
 - Process-centric
- **Big Idea 2:**
Sales Growth needs to match market type

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?**

Further Reading

Course Text at:

www.cafepress.com/kandsranch

or

www.amazon.com

