

**You have a shot at changing the world**



**SEMINAR 3:**  
**Introduction  
to Customer  
Development**

# Disclaimer

**This is ONLY a seminar on micro-entrepreneurship but it isn't for everyone.**

1. If your family needs monthly the support of your salary and depends on you it is better to sacrifice temporarily the vision of micro-entrepreneurship for the sake of your family.
2. If you don't understand that success isn't the only probability. Odds are against you.
3. If you believe that success is easy and fast.
4. Success comes from execution . Any idea isn't enough
5. Wishful thinking is death sentence for new entrepreneurs

**WE DONT ADVISE ANYONE TO BE ENTREPRENEUR.  
YOU KNOW YOURSELF AND YOUR  
CIRCUMSTANCES. ONLY YOU DECIDE. THIS  
SEMINAR IS ONLY FOR EDUCATIONAL PURPOSES.  
ANYONE WHO DARE TO TRY ENTREPRENEURSHIP  
HAS THE FULL RESPONSIBILITY!!!**

# INTRODUCTION



**Formal management  
tools are about 100  
years old.**

**Blank, Steve; Dorf, Bob. The Startup  
Owner's Manual: The Step-by-Step  
Guide for Building a Great Company**

# INTRODUCTION

**The pairing of venture capital and startup entrepreneurship emerged in its modern form, and the startup industry they fostered has been exploding ever since. Yet for the past 50 years, finding the successful formula for repeatable startup success has remained a black art.**

# INTRODUCTION

**Founders have continually struggled with and adapted the “big business” tools, rules and processes taught in business schools and suggested by their investors. Investors have been shocked when startups failed to execute “the plan,” never admitting to the entrepreneurs that no startup executes to its business plan. Today, after half a century of practice, we know unequivocally that the traditional MBA curriculum for running large companies like IBM, GM and Boeing does not work in startups. In fact, it’s toxic.**

# INTRODUCTION

**With the benefit of hindsight, entrepreneurs now understand the problem, namely that startups are not simply smaller versions of large companies. Companies execute business models where customers, their problems, and necessary product features are all “knowns.”**

**In sharp contrast, startups operate in “search” mode, seeking a repeatable and profitable business model. The search for a business model requires dramatically different rules, roadmaps, skill sets, and tools in order to minimize risk and optimize chances**

# INTRODUCTION

By the beginning of the 21st century, entrepreneurs, led by web and mobile startups, began to seek and develop their own management tools. Now, a decade later, a radically different set of startup tools has emerged, distinct from those used in large companies but as comprehensive as the traditional “MBA Handbook.” The result is the emerging “science of entrepreneurial management.” My first book, *The Four Steps to the Epiphany*, was one of its first texts. It recognized that the classic books about large-company management were ill-suited for early-stage ventures. It offered a reexamination of the existing product-introduction process and delineated a radically different method that brings customers and their needs headfirst into the process long before the launch.

**Blank, Steve; Dorf, Bob. *The Startup Owner's Manual: The Step-by-Step Guide for Building a Great Company***

The background features several overlapping organic shapes in shades of yellow and orange. In the top left, there is a pattern of small black dots. In the bottom left, there is a pattern of parallel black diagonal lines. The word "INTRODUCTION" is written in a bold, red, sans-serif font in the top right corner.

**INTRODUCTION**

**We are building the  
first management tools  
specifically for  
startups.**

# INTRODUCTION

Even more gratifying: now, a decade later, multiple books and authors, are filling shelves in the newly created section for the strategy and science of entrepreneurship. Some of the other areas in this emerging field of entrepreneurial management are:

- agile development, an incremental and interactive approach to engineering that enables product or service development to iterate and pivot to customer and market feedback
- business model design, which replaces static business plans with a nine-box map of the key elements that make up a company
- creativity and innovation tools for creating and fostering winning ideas
- the Lean Startup, an intersection of customer and agile development
- lean user interface design to improve web/mobile interfaces and conversion rates
- venture and entrepreneurial finance, to attract and manage funds that fuel the innovation

**Blank, Steve; Dorf, Bob. The Startup Owner's Manual: The Step-by-Step Guide for Building a Great Company**

# INTRODUCTION

**No one book, offers a complete roadmap or all the answers for entrepreneurs. Yet together, the texts in the entrepreneurial management science library offer entrepreneurs guidance where none existed before. Startups, driven by potential markets measured in billions of people, will use this body of knowledge to test, refine and scale their ideas far faster and more affordably than ever.**

**Blank, Steve; Dorf, Bob. The Startup Owner's Manual: The Step-by-Step Guide for Building a Great Company**

# WHAT IS A STARTUP

**A startup is a temporary organization in search of a scalable, repeatable, profitable business model.**

# WHAT IS A STARTUP

At the outset, the startup business model is a canvas covered with ideas and guesses, but it has no customers and minimal customer knowledge.

# THE SCALABLE STARTUP

The early days of a scalable startup are about the search for a repeatable and scalable business model. Scale requires external venture-capital investment in the tens of millions to fuel rapid expansion.

# THE BUYABLE STARTUP

**Buyable startups are a new phenomenon. With the extremely low cost of developing web/mobile apps, startups can literally fund themselves on founders' credit cards and raise small amounts of risk capital, usually less than \$1 million.**

# THE LARGE COMPANY

**Large Company Entrepreneurship: Large companies have finite life cycles. Most grow by offering new products that are variants of their core products (an approach known as sustaining innovation).**

**They may also turn to disruptive innovation, attempting to introduce new products into new markets with new customers.**

# THE EARLY STAGE RISKS

**Early-stage ventures fall into two types: those with customer/market risk and those with invention risk. • Markets with invention risk are those where it's questionable whether the technology can ever be made to work, but if it does, customers will beat a path to the company's door. (Think life sciences and cure for cancer.)**



# THE EARLY STAGE RISKS

**Markets with customer/  
market risk are those  
where the unknown is  
whether customers will  
adopt the product.**

# THE EARLY STAGE RISKS

For companies building web-based products, product development may be difficult, but with enough time and iteration, Engineering will eventually converge on a solution and ship a functional product—it's engineering, not invention. The real risk is in whether there is a customer and a market for the product as spec'ed. In these markets it's all about customer/market risk. There's a whole other set of markets where the risk is truly invention. These are markets where it may take five or even 10 years to get a product out of the lab and into production (e.g., biotech). Whether it will eventually work, no one knows, but the payoff can be so large that investors will take the risk. In these markets it's all about invention risk.

# THE EARLY STAGE RISKS

**A third type of market has both invention and market risk.**

**For example, complex new semiconductor architectures mean you may not know if the chip performs as well as you thought until you get first silicon. But then, because there might be entrenched competitors and your concept is radically new, you still need to invest in the Customer Development process to learn how to get design wins from companies that may be happy with their existing vendors.**

**Startups solve invention risk by using simulation tools (computational fluid dynamics, finite element analysis, etc.).**

# FOUNDERS STAMINA

All new companies and new products begin with a vision—a hope for what could be and a goal few others can see. It's this bright and burning founder's vision that differentiates an entrepreneur from a big-company CEO and separates startups from existing businesses. Founding entrepreneurs are out to make their vision and business real. To succeed, they must abandon the status quo, recruit a team that shares their vision, and strike out together on what appears to be a new path, often shrouded in uncertainty, fear and doubt. Obstacles, hardships and potential disaster lie ahead, and their journey to success tests more than financial resources—it tests their stamina, agility, and courage.

# FADS FOR STARTUPS

**In the last quarter of the 20th century, startups thought they knew the correct path for the startup journey. They adopted a methodology for product development, launch, and life-cycle management almost identical to the processes taught in business schools for use in large companies. These processes provide detailed business plans, checkpoints and goals for every step toward getting a product out the door—sizing markets, estimating sales, developing marketing-requirements documents, prioritizing product features. Yet at the end of the day, even with all these processes, the embarrassing fact is that in companies large and small, established corporate giants as well as new startups, more than nine of 10 new products fail.**

# FADS FOR STARTUPS

**Even after decades of similar failures, investors are always surprised when a new venture fails to execute its business “plan.” And still they continue to rely on the same product-introduction processes.**

# FADS FOR STARTUPS

**We now know what the problem is. Startups have been using tools appropriate for executing a known business. But startups are all about unknowns. To find the path to build a winning startup, entrepreneurs must try a new way: Winners throw out the traditional product management and introduction processes they learned at existing companies.**

# FADS FOR STARTUPS

Instead, they combine agile engineering and Customer Development to iteratively build, test and search for a business model, turning unknowns into knowns. Winners also recognize their startup “vision” as a series of untested hypotheses in need of “customer proof.” They relentlessly test for insights, and they course-correct in days or weeks, not months or years, to preserve cash and eliminate time wasted on building features and products that customers don’t want.

# FADS FOR STARTUPS

**Winners recognize their startup is a series of untested hypotheses. Losers blindly execute a rigid product management and introduction methodology. They assume that the founder's vision drives the business strategy and product development plans and that all they need to do is to raise funds for execution.**

# FADS FOR STARTUPS

**Founders, not employees, must search for a business model. 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 specs. That's the difference between winners and losers.**

# BIT PRODUCTS IDEAS

**One of the breakthroughs in commerce was the invention of products that were ideas or promises that didn't exist in physical form, such as life and health insurance, stocks and bonds, and commodity futures. In the 1970s, software began to be sold as a product unbundled from any particular computer. The ability to purchase bits was a new concept. By themselves the bits were useless, but when combined with a computer in the form of software applications, bits solved problems or amused people (word processing, balancing checkbooks, game play). These software applications and entertainment, all in the form of bits, were sold to consumers through specialized retail computer stores, a physical channel.**

# BIT PRODUCTS IDEAS

**Still other software applications were designed to solve problems companies had (database access, manufacturing automation, sales automation), and added Software Products Sold Through Physical Channels. As the Internet created a new form of sales channel, a new class of company emerged with the value proposition to sell physical products over the Internet. Amazon, Zappos, Dell, and a whole raft of other e-commerce companies filled a new niche: physical products sold via a web channel.**

# BIT PRODUCTS IDEAS

**This new sales channel created massive disruption in the existing world of physical distribution, as book and music retailers perhaps know best of all.**

# BIT PRODUCTS IDEAS

**Over the past decade a new class of product has emerged, where BOTH the product and the channel are bits. Startups can now be built for thousands rather than millions of dollars and in weeks rather than years. As a result, the number of startups founded each year has exploded. New applications such as social networks that duplicate the socialization we once had face-to-face are being mediated via machine. Search engines that scour the web, such as Google and Bing, exist only in bits, in a web/mobile channel.**

# BIT PRODUCTS IDEAS

**More important, entire industries that started by selling physical products in physical locations have begun their migration to bits sold over the Internet. Originally, people sold books, music, videos, movies, travel, and stocks and bonds either face-to-face or in storefronts.**

# BIT PRODUCTS IDEAS

**Those channels are either radically transformed or disappearing as physical products turn into bits.**

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# BIT PRODUCTS IDEAS

Regardless of the business, any enterprise focused on the Physical Goods Sold through a Physical Channel—has discovered over the past decade that the old rules and tools for physical businesses and channels no longer apply. They've learned that the closer a company gets to a web/mobile channel and a web/mobile product, the faster it can change, test and optimize both product and offer. They need a new process to quickly adapt to the new freedoms a web/mobile channel and product allow, and they've found it in Customer Development.

# BIT PRODUCTS IDEAS

**The Customer Development process gathers customer feedback about product, channel, price, and positioning, all of which can be modified and tested in near-real time, and uses it as immediate feedback to iterate and optimize. As a result, web/mobile channel startups can move forward at “Internet speed,” an impossibility with physical distribution channels and products. A mere decade ago, getting feedback on the features of a video game required recruiting focus groups to come in and play the game while being observed through one-way mirrors. Today, companies like Zynga test and tune the features of their online games in days. Are sales slow because the game is too hard? You can adjust the scoring or other game variables and change the product itself quicker than you can say touchdown.**

# CUSTOMER DEVELOPMENT

**Customer Development  
is the process to  
organize the search for  
the business model.**

# CUSTOMER DEVELOPMENT

**Theoretically, when startups' products and channels are bits, they can gather and act on information 100 times faster than companies delivering physical goods via physical sales channels (10 times the number of iterative learning cycles, each using only 10 percent of the cash.) In fact, companies like Facebook, Google, Groupon, and Zynga grew faster in a decade than most industrial corporations grew in the 20th century. That's why we call it the Second Industrial Revolution.**

# CUSTOMER DEVELOPMENT

The core of Customer Development is blissfully simple: Products developed by founders who get out in front of customers early and often, win. Products handed off to sales and marketing organizations that are only tangentially involved in the new-product development process will lose. There are no facts inside your building, so get the heck outside. Getting out of the building means acquiring a deep understanding of customer needs and combining that knowledge with incremental and iterative product development. The mix of Customer Development and Agile engineering dramatically increases the odds of new product and company success, while reducing the need for upfront cash and eliminating wasted time, energy, money and effort.

# CUSTOMER DEVELOPMENT

**There are no facts inside your building, so get the heck outside. Customer Development recognizes the startup's mission as a relentless search to refine its vision and idea, and to make changes in every aspect of the business invalidated during the search process. An entrepreneur seeks to test a series of unproven hypotheses (guesses) about a startup's business model: who the customers are, what the product features should be, and how this scales into a hugely successful company. Customer Development recognizes a startup is a temporary organization built to search for the answers to what makes a repeatable and scalable business model. Customer Development is the process to organize that search**

# CUSTOMER DEVELOPMENT

## **Phase One:**

**State Your Business Model Hypotheses,**

## **Phase Two:**

**“Get Out of the Building” to Test the Problem: “Do People Care?”**

## **Phase Three:**

**“Get Out of the Building” and Test the Product Solution**

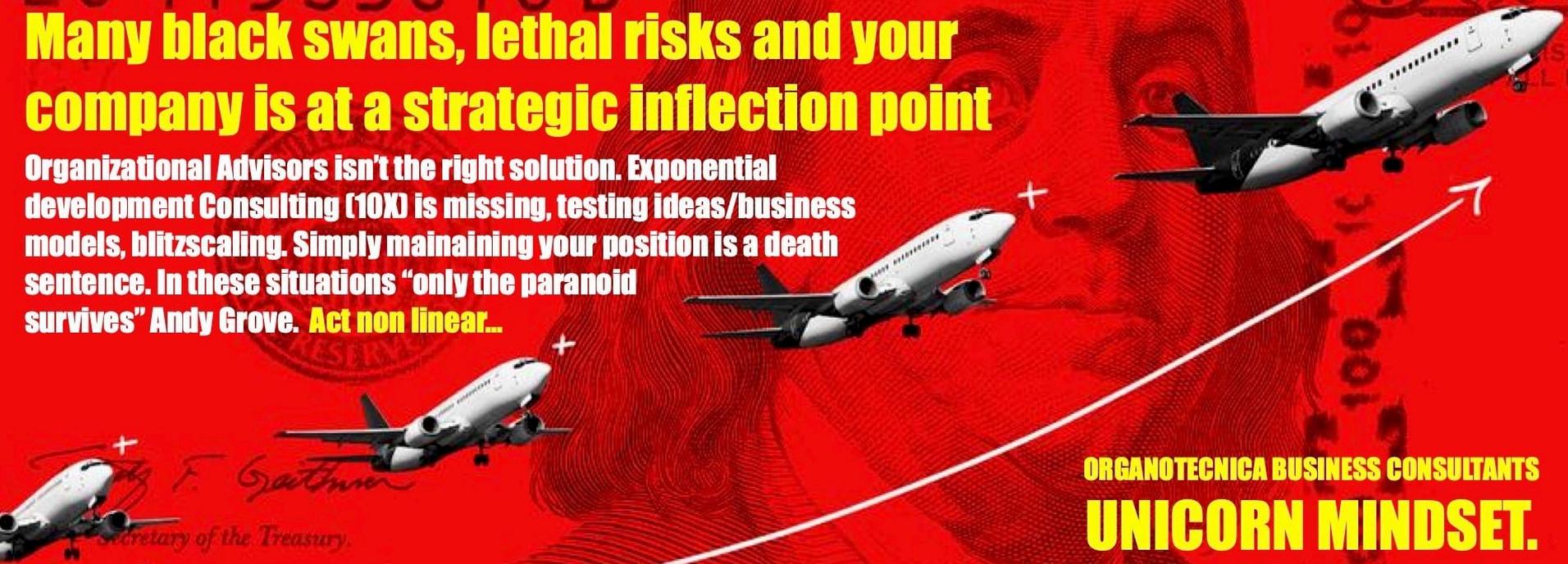
## **Phase Four:**

**Verify the Business Model and Pivot or Proceed**

# TAKE OFF STRATEGIES

Many black swans, lethal risks and your company is at a strategic inflection point

Organizational Advisors isn't the right solution. Exponential development Consulting (10X) is missing, testing ideas/business models, blitzscaling. Simply maintaining your position is a death sentence. In these situations "only the paranoid survives" Andy Grove. **Act non linear...**



# DARE TO DREAM

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