Chapter 2

The Path to Epiphany:

The Customer Development Model

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How narrow the gate and constricted the road that leads to life. And those who find it are few.

— Matthew 7:14

The furniture business does not strike many people as a market ripe for innovation. Yet during the halcyon days of dot-com companies (when venture capitalists could not shovel money out the door fast enough), the online furnishing market spawned a series of high profile companies such as Furniture.com and Living.com. Operating on the James Dean School of management (living fast and dying young), companies like these quickly garnered millions of dollars of investors' capital and just as swiftly flamed out. Meanwhile, a very different startup by the name of Design Within Reach began building its business a brick at a time. What happened, and why, is instructive.

At a time when the furniture dot-coms were still rolling in investor money, the founder of Design Within Reach, Rob Forbes, approached me to help the company get funding. Rob's goal was to build a catalog business providing easy access to well-designed furniture frequently found only in designer showrooms. In his twenty years of working as a professional office designer, he realized that one of the big problems in the furniture industry was that for design professionals and businesses such as hotels and restaurants, high-quality designer furniture took four months to ship. Customers repeatedly told Rob, "I wish I could buy great-looking furniture without having to wait months to get it." On a shoestring, Rob put together a print catalog of furniture (over half the items were exclusive to his company) that he carried in stock and ready to ship. Rob spent his time listening to customers and furniture designers. He kept tuning his catalog and inventory to meet designers' needs, and he scoured the world for unique furniture. His fledgling business was starting to take wing; now he wanted to raise serious venture capital funding to grow the company.

"No problem," I said. Pulling out my Rolodex and dialing for dollars, I got Rob in to see some of the best and the brightest venture capitalists on Sand Hill Road in Silicon Valley. Rob would go through his presentation and point out that there was a $17.5 billion business-to-business market for high-quality, well-designed furnishings. He demonstrated that the current furniture distribution system was archaic, fragmented, and ripe for restructuring, as furniture manufacturers face a convoluted system of reps, dealers, and regional showrooms that prevented direct access to their customers. Consumers typically waited four months for product and incurred unnecessary markups of up to 40%. Listening to Rob speak, it was obvious that he had identified a real problem, had put together a product that solved that problem, and had customers verifying that he had the right solution by buying from him.

It was such a compelling presentation that it was a challenge to identify any other industry where customers were so poorly served. Yet the reaction from the venture capital firms was uniformly negative. "What, no web site? No e-commerce transactions? Where are the branding activities? We want to fund web-based startups. Perhaps we'd be interested if you could turn your catalog furniture business into an e-commerce site." Rob kept patiently explaining that his business was oriented to what his customers told him they wanted. Design professionals wanted to leaf through a catalog at their leisure in bed. They wanted to carry a catalog to their customers. While he wasn't going to ignore the web, it would be the next step, not the first, in building the business.

"Rob," the VCs replied sagely, "Furniture.com is one of the hottest dot-coms out there. Together they've raised over $100 million from first-tier VCs. They and other hot startups like them are selling furniture over the web. Come back when you rethink your strategy."

I couldn't believe it: Rob had a terrific solution to sell and a proven business model, and no one would fund him. Yet like the tenacious entrepreneur he was, he stubbornly stuck to his guns. Rob believed the dot.com furniture industry was based on a false premise, that the business opportunity was simply online purchasing of home furnishings. He believed that the underlying opportunity was to offer *high-quality* products to a *select* audience that were differentiated from those of other suppliers, and to get those products to customers quickly. This difference, a select audience versus a wide audience, and high-quality furniture versus commodity furniture, was the crucial difference between success and massive failure.

Ultimately, Rob was able to raise money from friends and family and much later got a small infusion of venture capital. Fast-forward six years. Design Within Reach is a thriving $180 million public company. It has 56 retail stores and an e-commerce web site. Its brand is well known and recognized in the design community. Oh, and Furniture.com? It's already relegated to the dustbin of forgotten failures.

Why did Design Within Reach succeed, when extremely well funded startups like Furniture.com fail? What was it that Rob Forbes knew or did that made the company a winner? Can others emulate his success?

The Four Steps to the Epiphany

Considering the limitations of the product development model, the surprise is not that most startups fail, but that any of them manage to succeed at all. Unless a company is extremely lucky to guess right, eager customers are not usually standing at the door ready to pour the contents of their wallets into the company's coffers. Yet most startups lack a process or methodology for discovering their markets, locating their first customers, validating their assumptions, and growing their business. A few successful ones like Design Within Reach do all these things. The difference is that they have found the narrow gate to success called the Customer Development model.

The Customer Development model, depicted in Figure 2, is designed to solve the 10 problems of the Product Development model enumerated in Chapter 1. Its strength is its simplicity. The model separates out all the customer-related activities in the early stage of a company into their own processes, designed as four easy-to-understand steps: customer discovery, customer validation, customer creation, and company building. As you will see, these steps mesh seamlessly and support a startup's ongoing product development activities. Each of them results in specific deliverables to be described in subsequent chapters.

The Customer Development model is not a replacement for the Product Development model, but a companion. Broadly speaking, customer development focuses on understanding customer problems and needs, customer validation on developing a sales model that can be replicated, customer creation on creating end user demand, and company building on transitioning the company from one designed for learning and discovery to a well-oiled machine engineered for execution. As I discuss later in this chapter, integral to this model is the notion that market type choices affect the way the company will deploy its sales, marketing and financial resources.

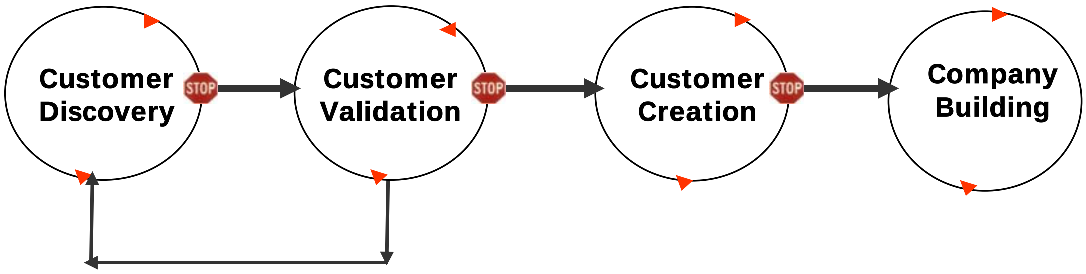

Figure 2.1 The Customer Development Model

Notice that a major difference between this model and the traditional product development model is that each step is drawn as a circular track with recursive arrows. The circles and arrows highlight the fact that each step in customer development is iterative. That's a polite way of saying, "Unlike product development, finding the right customers and market is hard, and we will screw it up several times before we get it right." Experience with scores of startups shows that only in business school case studies does progress with customers happen in a nice, linear fashion. The nature of finding and discovering a market and customers guarantees that you will get it wrong several times. Therefore, unlike the product development model, the Customer Development model assumes that it will take several iterations of each of the four steps until you get it right. It's worth pondering this point for a moment, because this philosophy of "It's OK to screw it up if you plan to learn from it" is the heart of the methodology presented in this book.

In a product development diagram, going backwards is a considered a failure. No wonder most startup businesspeople are embarrassed when they are out in the field learning, failing, and learning some more. The diagram they've used to date says, "Go left to right and you're a success. Go right to left, and you'll get fired." No wonder startup sales and marketing efforts tend to move forward even when it's patently obvious that they haven't nailed the market.

In contrast, the customer development diagram says that going backwards is a natural and valuable part of learning and discovery. In this new methodology, you keep cycling through each step until you achieve "escape velocity"—that is, until you generate enough success to carry you out of this step and into the next.

Notice that the circle labeled Customer Validation in the diagram has an additional iterative loop going back to Customer Discovery. As you'll see later, customer validation is key checkpoint in understanding whether you have a product that customers want to buy and a road map of how to sell it. If you can't find enough paying customers in the customer validation step, the model returns you to Customer Discovery to rediscover what customers want and will pay for.

An interesting consequence of this process is that it keeps a startup at a low cash burn rate until the company has validated its business model by finding paying customers. In the first two steps of customer development, even an infinite amount of cash is useless, because it can only obscure whether you have found a market. Since the model assumes that most startups cycle through these first two steps at least twice, it allows a well-managed company to carefully estimate and frugally husband its cash. The company doesn't build its business teams (sales, marketing, business development) until it has proof in hand (a tested sales road map and valid purchase orders) that it has a business worth building. Once that proof is obtained, the company can quickly go through the last two steps of customer creation and company building to capitalize on the opportunity it has found and validated.

The interesting thing about the Customer Development model is that the process it describes represents the best practices of winning startups. Describe this model to entrepreneurs who have taken their companies all the way to a public offering and beyond, and you'll get heads nodding in recognition. It's just that until now, no one has ever explicitly mapped their journey to success. Even more surprising, while the Customer Development model may sound like a new idea for entrepreneurs, it shares many features with a U.S. war fighting strategy known as the "OODA

Loop" articulated by John Boyd[1] and adopted by the U.S. armed forces in the second Gulf War. (You'll hear more about the OODA Loop later in this chapter.)

The next four chapters provide a close-up look at each of the four steps in the model. The following overview will get you oriented to the process as a whole.

Step 1: Customer Discovery

The goal of Customer Discovery, is just what the name implies: finding out who the customers for your product are and whether the problem you believe you are solving is important to them. More formally, this step involves discovering whether the problem, product and customer hypotheses in your business plan are correct. To do this, you need to leave guesswork behind and get outside the building in order to learn what the high-value customer problems are, what it is about your product that solves these problems, and who specifically your customer is (for example, who has the power to make or influence the buying decision.) What you find out will also help you shape your initial value propositions. An important insight is that the goal of customer development is *not to collect feature lists* from prospective customers, *nor is it to run lots of focus groups*. In a startup, it is the founders and product development that defines the first product. The job of the customer development is to see whether there are customers and a market for the product that vision. (Read this last sentence again, it's not intuitively obvious, but puts the stake in the ground of where the initial product spec comes from.)

The basic premise of Furniture.com and Living.com was a good one. Furniture shopping is time-consuming, and the selection at many stores can be overwhelming. On top of that, the wait for purchased items can seem interminable. While these online retailers had product development milestones they lacked formal customer development milestones. At Furniture.com the focus was on getting to first customer ship and market first and fast. Furniture.com spent $7 million building its web site, e-commerce and supply chain systems before the company knew what customer demand would be. Once the web site was up and the supply chain was in place, it began shipping. Even when it found that shipping and marketing costs were higher than planned, and that the brand-name manufacturers did not want to alienate their traditional retail outlets, the company pressed forward with its existing business plan.

In contrast, at Design Within Reach Rob Forbes was the consummate proponent of a customer-centric view. Rob was talking to customers and suppliers continually. He didn't spend time in his office pontificating about a vision for his business. Nor did he go out and start telling customers what products he was going to deliver (the natural instinct of any entrepreneur at this stage). Instead, he was out in the field listening to customers, discovering how they worked and what their key problems were. Rob believed that each new version of the Design Within Reach furniture catalog was a way for his company to learn from customers. As each subsequent catalog was developed, feedback from customers was combined with the sales results of the last catalog and the appropriate changes were made. Entire staff meetings were devoted to "lessons learned" and "what didn't work." Consequently, as each new catalog hit the street the size of the average customer order increased, along with the number of new customers.

Step 2: Customer Validation

Customer Validation, is where the rubber meets the road. The goal of this step is to build a repeatable sales road map for the sales and marketing teams that will follow later. The sales road map is the playbook of the proven and repeatable sales process that has been field-tested by successfully selling the product to early customers. Customer validation proves that you have found a set of customers and a market who react positively to the product by relieving those

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[1] Air War College, John R. Boyd, "Patterns of Conflict" and "A Discourse on Winning and Losing" http://www.maxwell.af.mil/au/awc/awcgate/awc-thry.htm#boyd

customers of some of their money. A customer purchase in this step validates lots of polite words about your product.

In essence, customer discovery and customer validation corroborate your business model. Completing these first two steps verifies your market, locates your customers, tests the perceived value of your product, identifies the economic buyer, establishes your pricing and channel strategy, and checks out your sales cycle and process. If, and only if, you find a group of repeatable customers with a repeatable sales process, and then find that those customers equal a profitable business model, do you move to the next step.

Design Within Reach started with a hypothesis that its customers fit a narrow profile of design professionals. It treated this idea like the educated guess it was, and tested this premise by analyzing the sales results of each catalog. It kept refining its assumptions until it had found a repeatable and scalable sales and customer model.

This is where the dot.com furniture vendors should have stopped and regrouped. When customers did not respond as their business models predicted, further execution on the same failed plan guaranteed disaster.

Step 3: Customer Creation

Customer Creation, builds on the success the company has had in its initial sales. Its goal is to create end-user demand and drive that demand into the company's sales channel. This step is placed after customer validation to move heavy marketing spending *after* the point where a startup acquires its first customers, thus allowing the company to control its cash burn rate and protect its most precious asset.

The process of customer creation varies with the type of startup. As I noted in Chapter 1, startups are not all alike. Some startups are entering existing markets well defined by their competitors, some are creating new markets where no product or company exists, and some are attempting a hybrid of the first two, resegmenting existing market either as a low-cost entrant or by creating a new niche. Each of these "Market Type" strategies requires a very different set of customer creation activities.

In Furniture.com's prospectus, the first bullet under growth strategy was "Establish a powerful brand." Furniture.com launched a $20 million advertising campaign that included television, radio and online ads. It spent a total of $34 million on marketing and advertising, even though revenue was just $10.9 million. (Another online furniture startup, Living.com, agreed to pay electronic-commerce giant Amazon.com $145 million over four years to be featured on Amazon's home page.) Brand building and heavy advertising make lots of sense in existing markets when customers understand your product or service. However, in an entirely new market this type of "onslaught" product launch is like throwing money down the toilet. Customers don't have a clue what you are talking about, and you don't have a clue if they will behave as you assume.

Step 4: Company Building

Company Building, is where the company transitions from its informal, learning and discovery-oriented customer development team into formal departments with VPs of Sales, Marketing and Business Development. These executives now focus on building mission-oriented departments that can exploit the company's early market success.

TIn contrast to this stepwise process, premature scaling is the bane of startups. By the time Furniture.com had reached $10 million in sales, it had 209 employees and a burn rate that would prove to be catastrophic if any one of the business plan assumptions were incorrect. TThe approach seemed to be to "spend as much as possible on customer acquisition before the music stops." Delivering heavy furniture from multiple manufacturers resulted in unhappy customers as items got damaged, lost, or delayed. Flush with investors' cash, the company responded the way dot-coms tend to respond to problems: by spending money. It reordered, and duplicates began piling up in warehouses. The company was burning through investor dollars like cheap kindling. Furniture.com went from filing for a public offering in January to pulling its IPO in June 2000 and talking with bankruptcy lawyers. The company was eventually able to raise $27 million in venture funding, but at a lower valuation than it had gotten the last time it raised money. In a bid for survival, Furniture.com furiously slashed costs. The company, which had been offering free shipping for delivery and returns, began charging a $95 delivery charge. Then it laid off 41% of its staff. But it never solved the key question: Is there a way to sell commodity furniture over the Web and ship it cost-effectively when you don't have a nationwide network of stores?

At Design Within Reach, Rob Forbes ran the company on a shoestring. The burn rate was kept low, first as a necessity as he scraped together financing from friends, family, and the casual investor, and then by plan as his team was finding a sales road map that could scale. Rob was finding a way to sell furniture without a network of stores - it was called a catalog.

THE FOUR TYPES OF STARTUP MARKETS

Since time immemorial a post mortem of a failed company usually includes, "I don't understand what happened. We did everything that worked in our last startup." The failure isn't due to lack of energy, effort or passion. It may simply be due to not understanding that there *are three types of startups*, and each of them have a very different set requirements to succeed:

- Startups that are entering an existing market
- Startups that want to resegment an existing market as a low cost entrant
- Startups that want to resegment an existing market as a niche player
- Startups that are creating an entirely new market

As I pointed out in Chapter 1, a strategic error is thinking and acting as if all startups are the same. It is a fallacy to believe that the strategy and tactics that worked for one startup should be appropriate in another. That's because the "type of startup market" changes everything a company does.

As an example, imagine it's October 1999 and you are Donna Dubinsky the CEO of a feisty new startup, Handspring, in the billion dollar Personal Digital Assistant (PDA) market. Other companies in the 1999 PDA market were Palm, the original innovator, as well Microsoft and Hewlett Packard. In October 1999 Donna told her VP of Sales, "In the next 12 months I want Handspring to win 20% of the Personal Digital Assistant market." The VP of Sales swallowed hard, but turned to the VP of Marketing and said, "I need you to take end user demand away from our competitors and drive it into our sales channel." The VP of Marketing looked at all the other PDA's on the market and differentiated Handsprings' product by emphasizing expandability and performance. End result? After twelve months Handsprings revenue was $170 million. This was possible because in 1999 Donna and Handspring were in an *existing market*. Handsprings customers understood what a Personal Digital Assistant was. Handspring did not have to educate them about the market, just why their new product was better than the competition – and they did it brilliantly.

What makes this example really interesting is this; rewind the story 3 years earlier to 1996. Before Handspring, Donna and her team had founded Palm Computing, the pioneer in Personal Digital Assistants. Before Palm arrived on the scene the Personal Digital Assistant market did not exist. (A few failed science experiments like Apple's Newton had come and gone.) But imagine if Donna had turned to her VP of Sales at Palm in 1996 and said, "I want to get 20% of the Personal Digital Assistant market by the end of our first year." Her VP of Sales might had turned to the VP of Marketing and said, "I want you to drive end user demand from our competitors into our sales channel." The VP of Marketing might have said, "lets tell everyone about how fast the Palm Personal Digital Assistant is." If they had done this there would have been zero dollars in sales. In 1996 no potential customer had even heard of a Personal Digital

Assistant. No one knew what a PDA could do, there was no latent demand from end users, and emphasizing its technical features would have been irrelevant. What Palm needed to do was educate potential customers about what a PDA could do for them. By our definition, a product that allows users to do something they couldn't do before meant that Palm in 1996 was in a *new market*. In contrast, Handspring in 1999 was in an *existing market*.

The lesson is that even with essentially identical products, Handspring would have failed if it had used the same sales and marketing strategy management previously used at Palm. And the converse is true; Palm would have failed, burning through all their cash, using Handspring's strategy. Market type changes everything about sales and marketing..

Type of Market changes how you evaluate customer needs, customer adoption rate, how the customer understands his needs and how you would position the product to the customer. Type of Market also changes the market size, as well as how you would launch the product into the market. Table 2.1 points out what's different.

Customers	Market	Sales	Finance
Needs	Market Size	Distribution channel	On going capital
Adoption Rate	Cost of entry	Margins	Time to profitability
Problem recognition	Launch Type	Sales cycle	
Positioning	Competitive Barriers		

Table 2.1 Type of Market Affects Everything

Before any sales or marketing activities can begin, a company must keep testing and asking, "What kind of a startup are we?" To see why, consider the three possible Market Types a startup can take.

A New Product in an Existing Market

An existing market is pretty easy to understand. We say you are in an *existing market* if your product offers higher performance than what is currently offered. Higher performance can be a product or service that runs faster, does something better or substantially improves on what is already on the market. The good news is that the users and the market are known, but so are the competitors. In fact, the competitors define the market. The basis of competition is therefore all about the product and product features.

You can enter an existing market with a cheaper or repositioned product, but if that is the case we call that a resegmented market.

A New Product Attempting to Resegment an Existing Market

Over half of startups pursue the hybrid course of attempting to introduce a new product that *resegments an existing market*. Resegmenting an existing market can take two forms: a low-cost strategy or a niche strategy. *Low-cost resegmentation* is just what it sounds like – are there customers at the low-end of an existing marketing who will buy less but good enough performance, features/etc., if they could get it at a lower price? If you truly can be a low cost (and profitable) provider, entering existing markets at this end is fun, as incumbent companies tend to abandon low-margin businesses and head up-market.

Niche resegmentation is slightly different. It looks at an existing market and asks, "would some part of this market buy a new product designed to address their specific needs? Even if it cost more? *Niche resegmentation* attempts to convince the users that some characteristic of the new product is radical enough to change the rules and shape of an existing market. Unlike low-cost resegmentation, niche goes after the core of an existing market's profitable business.

Both cases of resegmenting a market reframes how people think about the products within an existing market. In-n-Out Burger is a classic case of re-segmenting an existing market. Who would have thought that a new fast food chain (now with 200 company owned stores) could be a successful entrant after McDonalds and Burger King owned the market? Yet In-n-Out succeeded by simply observing that the incumbent players had strayed from their original concept of a hamburger chain. By 2001 McDonald's had over 55 menu items and not one of them tasted particularly great. In stark contrast, In-n-Out offered three items all fresh, high quality and great tasting. They focused on the core fast food segment that wanted high quality hamburgers and nothing else.

While resegmenting an existing market is the most common market type choice of new startups, it's also the trickiest. As a low-end resegmentation strategy, it needs a long-term product plan that uses low cost as market entry to eventual profitability and up-market growth. As a niche resegmentation, this strategy faces entrenched competitors who will fiercely defend their profitable markets. And both require adroit and agile positioning of how the new product redefines the market.

A New Product in a New Market

The final possibility is to introduce a new product into a new market. What's a new market? It's what happens when a company creates a large customer base who *couldn't do something before* whether it was because of the new products lower cost, or that it's truly innovative and never existed before. Or the new product solves availability, skill, convenience, or location issues in a way no other product has. Compaq's first portable computers allowed business executives to take their computers with them, something simply impossible previously. Compaq created a new market, the portable computer market. With Quicken, Intuit offered people a way to manage their finances on their personal computers, automating writing checks, maintaining a check register and reconciling monthly balances; things that most people hated to do and few could do well. In doing so, Intuit created the home accounting market. (By "created the market" I do not mean "first-to-market"; I mean the company whose market share and ubiquity are associated with the market.)

In a new market the good news is that your product features are at first irrelevant because there are no competitors (except other pesky startups). The bad news is that the users and the market are undefined and unknown. If you're creating a new market, your problem isn't how to compete with other companies on product features but how to convince a set of customers that your vision is not a hallucination. Creating a new market requires understanding whether there is a large customer base who couldn't do this before, whether these customers convinced that they want or need your new product, and whether customer adoption occurs in your lifetime. It also requires rather sophisticated thinking about financing – how you manage the cash burn rate during the adoption phase, and how you manage and find investors who are patient and have deep pockets

Market Type and the Customer Development Process

As a company follows the customer development process through each of the four steps, the importance of market type becomes apparent. During the first step, Customer Discovery, all startups regardless of market type, leave the building and talk to customers. In Customer Validation, the differences between type of startup become readily apparent as sales and positioning strategies diverge rapidly. By Customer Creation, the third step, the difference between startup market types is acute as customer acquisition and sales strategy differ dramatically between the types of markets. It is in Customer Creation that startups who do not understand market type spend themselves out of business. Chapter 5, Customer Creation, highlights these potential landmines.

The speed with which a company moves through the customer development process also depends on market type. If a company is in an existing market, producing a product for example, which is simply 3 times faster than its competitors, answering the questions posed by this process ought to be a snap, and can be accomplished in a matter of months. In contrast, a company creating a new market has an open-ended set of questions. Completing the customer development processes may take a year or two or even longer.

Table 2.2 sums up the differences so far discussed between the three market types. As you'll see, the Customer Development model provides an explicit methodology for answering the question "What kind of startup are we?" It's a question you'll keep coming back to in the customer development, customer validation and customer creation steps.

	Existing Market	Resegmented Market	New Market
Customers	Existing	Existing	New/New usage
Customer Needs	Performance	1. Cost 2. Perceived need	Simplicity & convenience
Performance	Better/faster	1. Good enough at the low end 2. Good enough for new niche	Low in "traditional attributes", improved by new customer metrics
Competition	Existing Incumbents	Existing incumbents	Non-consumption /other startups
Risks	Existing Incumbents	1. Existing incumbents 2. Niche strategy fails	Market adoption

Table 2.2 Type Of Markets Characteristics

SYNCHRONIZING PRODUCT DEVELOPMENT AND CUSTOMER DEVELOPMENT

As I suggested in Chapter 1, customer development is not a substitute for the activities occurring in the product development group. Instead, customer development and product development are parallel processes. While the customer development group is engaged in customer-centric activities outside the building, the product development group is focused on the product-centric activities that are taking place internally. At first glance, it might seem that there isn't much connection between the two. This is a mistake. For a startup to succeed, product and customer development must remain synchronized and operate in concert.

However, the ways the two groups interact in a startup are 180 degrees from how they would interact in a large company. Engineering's job in large companies is to make follow-on products for an existing market. A follow-on product starts with several things already known: who the customers are, what they need, what markets they are in, and who the company's competitors are. The interaction in a large company between product development and customer development is geared to understanding what additional features and functions existing customers need and at what price while maximizing market share and profitability.

In contrast, most startups can only guess who their customers are and what markets they are in. The only certainty on day one is what the product is. It follows, then, that the goal of customer development in a startup is to find a market for the product as spec'd, not to develop or refine a spec based on a market that is unknown. This is a fundamental difference between a big company and most startups (the exceptions are startups that are entering an existing market).

To put the point another way, big companies tailor their product development to known customers. Product features emerge by successive refinement against known customer and market requirements and a known competitive environment. As the product features get locked down, how well the product will do with those customers and markets becomes clearer. Startups, however, begin with a known product spec and tailor their product development to unknown customers. Product features emerge by vision and fiat against unknown customer and market requirements. As the market and customers get clearer by successive refinement, product features are driven by how well they satisfy this market. In short, in big companies, the product spec is market-driven; in startups, the market is product-driven.

In both cases, though, product and customer development must go hand in hand. However, in most startups the only formal synchronization between Engineering and the sales/marketing teams are when they line up for contentious battles. Engineering says, "How could you have promised these features to customers? We're not building that." Sales responds, "How come the product is missing all the features you promised would be in this release? We need to commit these other features to get an order." One of the goals of a formal customer development process is to ensure that the focus on the product and the focus on the customer remain in concert without rancor and with a modicum of surprise.

This is accomplished in five ways:

- In each of the steps—customer development, customer validation, customer creation and company building—the product development and customer development teams meet in a series of formal "synchronization" meetings. Unless the two groups agree, the company does not move forward to the next step.
- In customer discovery, the customer development team strives to validate the product spec, not come up with a new set of features. If customers do not agree that there's a problem to be solved, or think that the problem is not painful, or don't deem the product spec solves their problem, then the market and product development teams reconvene.
- Also in customer discovery, when customers have consistently said that new or modified product features are required, the VP of Product Development goes out with the team to listen to customer feedback.
- In customer validation, key members of the product development team go out in front of customers as part of the pre-sales support team.
- In company building, the engineering team does installations and support for initial product while training the support and service staff.

As you proceed through the detailed phases of each step in the chapters to come, you'll see that this emphasis on synchronization runs through the entire customer development process.

SUMMARY: THE CUSTOMER DEVELOPMENT PROCESS

The Customer Development model consists of four well-defined steps: customer development, customer validation, customer creation, and company building. As you will see in succeeding chapters, each of these steps has a set of clear, concise deliverables that give the company and its investors incontrovertible proof that progress is being made on the customer front. Moreover, the first three steps of customer development can be accomplished with a staff that can fit in a phone booth.

While each step has its own specific objectives, the process has a whole has one overarching goal: proving that there is a profitable, scalable business for the company. This is what turns the company from a nonprofit into a moneymaking endeavor.

Being a great entrepreneur means finding the path through the fog and confusion and myriad of choices. To do that, you need not only vision but a process. This book gives you the process. Its premise is simple: if you execute the four steps of customer development rigorously and thoroughly, the odds of your startup's achieving success increase, and you can reach the epiphany.