+ACUMEN

LEAN STARTUP PRINCIPLES

# Module 2
# Readings

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# DISCOVERING YOUR CUSTOMERS

Learning directly from your potential customers is the first step in implementing a Lean approach.  But it doesn't end there.  You should be prepared to keep going back to people and seeing how they respond to your ideas at multiple stages of the process.  This is called Customer Discovery.  Initially, you should be asking: Who are my customers?  How do I know what they really want or need?  What would happen if I knocked on their door and actually asked them, or, better yet, showed them a product I was working on?

You can gain a tremendous amount of insight and save a tremendous amount of time & resources if you "get out of the building" early in your process and test things with real people.   At Acumen, we believe that customer discovery is particularly valuable in the social sector, where you might be working with populations that are not typically polled in marketing surveys or asked what they really want or need.  To avoid building products or services that are useless to populations like the poor, the disabled, the homeless, refugees, young mothers, students, farmers, or patients, it can help to consult them directly as valued consumers.  In this module, we'll step you through how to find your customers and learn from them effectively.  Let's get started.

"It starts by standing with the poor, listening to voices unheard, and recognizing potential where others see despair."
— Acumen Manifesto

"You can listen to what people say, sure. But you will be far more effective if you listen to what people do."

— Seth Godin

# 4 STAGES OF CUSTOMER DEVELOPMENT

So how should you discover what will make your customers stop in their tracks and decide to buy a new product? How can you uncover what will get them excited about the service you are offering? Any good entrepreneur will tell you that it is important to listen to your customers. However, when you're practicing Lean methods, you should listen for specific things. While you want to be open to new ideas and emergent feedback, you also need to learn from customers in ways that are efficient, effective, and targeted. You should approach customers with a **vision** of what your product or service will be & what impact it can create. But then you should be open to all sorts of feedback, including rejection of your hypotheses. You'll have to set your ego aside at all stages of the process.

Steve Blank defines 4 key phases or modes of listening to customers, that should occur from the very early stages when you are trying to come up with the idea for a company all the way through to when you begin to build and scale your enterprise. He calls these 4 stages **customer development**.

The following page outlines these 4 stages. As you read, think about whether you have experienced any of these types of interactions with a customer or client before.

**When you're practicing Lean methods, you should listen for specific things to validate or reject your hypotheses.**
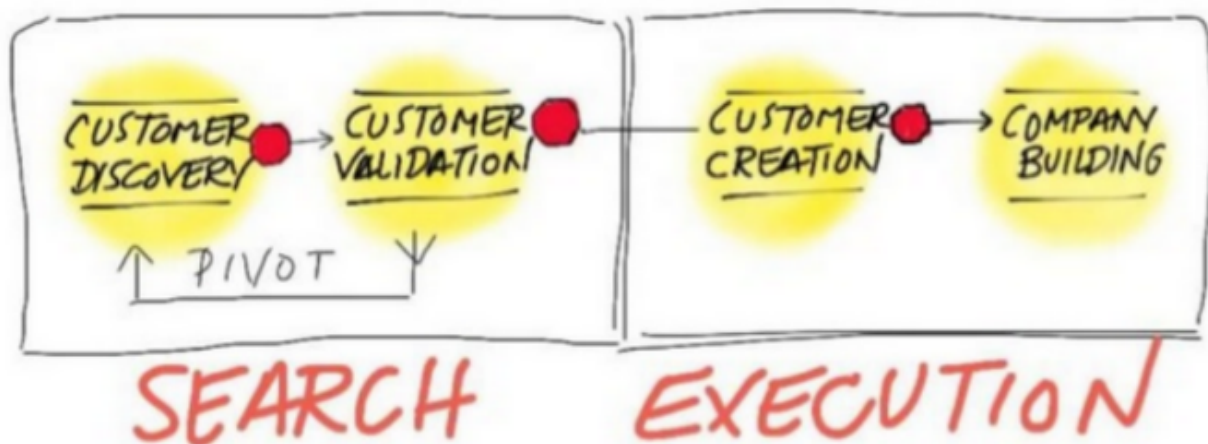
Diagram: Steve Blank

# 4 STAGES OF CUSTOMER DEVELOPMENT

### 1. Customer Discovery

Test your hypotheses to figure out if your assumptions about what customers need and want hold true.  Then create a minimum viable product to see how customers respond to your proposed solution.

### 2. Customer Validation

You've created a product or service.  Hooray! Now you should continue to validate the need for that product or service by fulfilling initial orders & soliciting feedback from early buyers.  If sales start to lag or target orders are not reached, it's time to reevaluate the model and "pivot" to something new.

### 3. Customer Creation

You have proven hypotheses about the value that your product or service could provide.  It's time to get the word out and try to acquire customers.  This means that you might pump resources into your sales and marketing efforts.

### 4. Company Building

Now it's time to execute.  You've moved beyond startup phase, but should continue to keep a pulse on your customers and their feedback.

(from Steve Blank: "How the Lean Start Up Changes Everything")

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# AN ACUMEN EXAMPLE FROM PAKISTAN

Below is an excerpt from a recent article published by Acumen's CEO, Jacqueline Novogratz (@jnovogratz) entitled "Bring Me a Fan." In it, she describes an early encounter she had with customers in Pakistan. As you read this excerpt, reflect on the insights Jacqueline gained from this exchange, and how you might have responded in this situation. Try to identify the stage of customer development that this encounter would fit into, using Steve Blank's continuum from the previous page.

*"The sun blazes above Bahawalpur, an area of Pakistan known for fertile fields and feudalism. It's afternoon and the temperature has already exceeded 120 degrees Fahrenheit as I sit talking to a small group of women in a courtyard. They listen politely, exchanging stories about their lives and why I am there.*

*These are hardscrabble women, trying to scratch out a living as weavers and sharecroppers on an acre or so of land, supplementing their family's income by selling crafts. Their homes have no toilets, no electricity, no clean water. Their children's futures limited by poor quality schools. This is what poverty looks like. Yet they are aspirational.*

*They proudly tell me their husbands all own cellphones, which have become essential to farming, even for the poorest.*

*As the sun beats down upon our backs, I am reminded to mention Acumen's new investment in a solar company, d.light, which has a $7 torch on the market. I tell them it's a big seller in India and Kenya and customers swear by them.*

WANT TO LEARN MORE?
Read the full article to learn about new products that d.light has since created in response to customer needs.

# AN ACUMEN EXAMPLE FROM PAKISTAN

The women listen, nodding their heads. I ask whether they would be interested in buying such a product to bring light into their homes after the sun goes down and Bahawalpur becomes cloaked in darkness.

A broad-eyed woman with a rust-colored scarf hanging loosely on her head, her face drenched in sweat, leans forward on thick haunches. She looks directly at me, her gaze betraying a mix of bemusement and exhaustion.

"We don't want a light," she says flatly. "We're hot. Bring us a fan."

"A fan?" I ask, stumbling over my own words. "But a light would help you save the money you pay for kerosene. There is no smoke. You could work later at night and your children could study."

I try to make my case for the solar lantern, but my attempts are futile. The woman gives me that look again: "We work enough. Forget the light. We need a fan."

REFLECT
+ What insights did Jacqueline gain from this exchange?

+ What did she do effectively to gain these insights?

+ If Jacqueline was the founder of d.light, what could she have done differently to follow up with this woman and gain even more information about how to market or improve the product?

Have you ever talked to the people who use the products, programs or services that you created?

+ If so, what was your experience like? How did you find people to talk to? What were you trying to learn from them? What did you actually learn? What would you do differently if you had to talk to customers again?

+ If not, why do you think this has not been a priority? What obstacles exist that prevent you from speaking directly to customers or clients? Where do you gain information about what is or what is not working instead?

# GETTING OUT
# OF THE BUILDING

Many of us in the social sector got into this work because we've been moved by problems like homelessness, hunger, or poor quality education. We think we have valuable ideas to contribute towards solutions. You might have a graduate degree in social work, international relations, or public policy that gives you a expertise in the area where you work. But if we don't get out of our own heads and test our ideas with real people, we risk building solutions that work better in theory than in practice, or don't align with the realities of the people we are trying to serve.

On the next pages, we'll walk you through the details of how you actually gather feedback from customers in ways that are efficient and effective.

**Key Things to Remember**
Don't sit in your office all day tinkering on the perfect solution. The real answers and insights lie out in the real world with your customers.
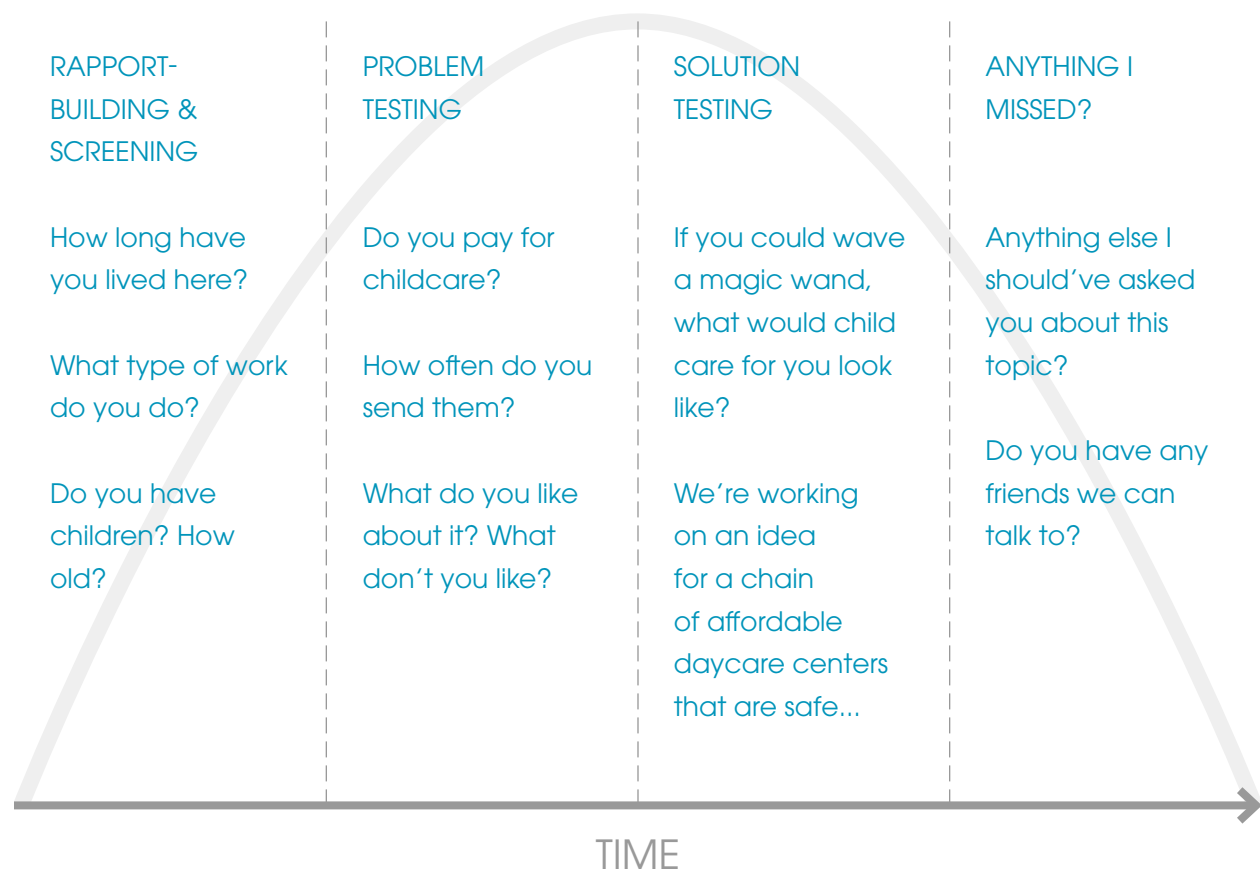
When interacting with customers, do more listening than talking. You should be seeking to discover insights, not sell your product. Leave your ego at the door and be open to feedback.

However, don't use customer discovery just to come up with a laundry list of all the random things that customers want from your product or service. People will tell you that they want a million different personalized features. You can't cater to all these demands so your job is to test your specific hypotheses to see if they work for people. Don't get overwhelmed trying to "design by committee."

# THE INTERVIEW ARC

**How should you structure a customer interview?**

Here's a suggested arc for how your interview with customers can unfold. We've included sample questions that Kidogo, an early stage social enterprise delivering childcare in the slums of Nairobi, used to test their product.

| RAPPORT-BUILDING & SCREENING | PROBLEM TESTING | SOLUTION TESTING | ANYTHING I MISSED? |
|---|---|---|---|
| How long have you lived here? | Do you pay for childcare? | If you could wave a magic wand, what would child care for you look like? | Anything else I should've asked you about this topic? |
| What type of work do you do? | How often do you send them? | | Do you have any friends we can talk to? |
| Do you have children? How old? | What do you like about it? What don't you like? | We're working on an idea for a chain of affordable daycare centers that are safe... | |

TIME

# 10 TIPS FOR TALKING TO CUSTOMERS

How do you actually "get out of the building" and what does "talking to customers" mean in the social sector?  You can start with these 10 best practices, which build upon several excellent tips from Giff Constable's book _Talking To Humans_.

**1. Don't just talk to people you know.**
Imagine you've developed a really cool prototype for a literacy game.  Your target market is the children of nomadic herdsmen in central Asia, but you're currently based in the capital city and decide it will be easier to just test your product with students at the local library.  Will this work? You can get some valuable insights, but it's not optimal.  Customer discovery should often push you beyond your comfort zone.  As tempting as it can be, don't just talk to the super enthusiastic student who always sits in the front row of the class, or the villager who shows up to every training session you offer, or the farmer who is the most friendly.  You should seek out a representative customer sample, and that might mean tracking down people in hard-to-reach locations; people who are not outwardly hospitable; or people that speak a language different from your own.  When you try to talk to new people, you often get the richest insights.

**2. Meet in person.**
You may be designing products, services or programs for people who live miles away.  However, in-person testing and conversation are highly valuable and should be arranged whenever possible.  You capture a great deal of nuance and insight when you see how someone holds your product in their hands or actually responds to a demo session.  Absent the ability to meet in person, try to arrange for a video conference or something that will provide visual and/or experiential feedback instead of just talking over the phone or email, but keep in mind this can be difficult when you're designing for people who live in remote or rural areas.

**3. Set clear and fair expectations.**
Before you initiate an interview or product test, be clear about who you are, what you are doing, and what the outcomes might be.  For example, if you are talking to incarcerated parents about their needs after release, make it clear that you will not necessarily be able to offer them all of the solutions you talk about, but are merely exploring what they need.  Or if you are testing several new prototypes for a toilet that could help provide critical sanitation services in the slums, make sure the people you are testing with understand that this

# 10 TIPS FOR TALKING TO CUSTOMERS

product might not actually come to market anytime soon.  Avoid raising expectations too high or over-promising. Instead the key is to be clear and honest, explaining that you are hoping to build critical solutions, but are still very much engaged in exploration and research.

### 4. Talk to one person at a time.

Lots of non-profits use focus groups to solicit feedback from people.  This is not the same as customer discovery.  When you're getting people to give you input on products or services, you should focus on interacting with just one person at a time. Giff Constable points out that this helps you avoid "group think" and enables you to probe more deeply into the particular experiences of one individual.  Keep in mind that before you arrange one-on-one meetings, you should be mindful of the gender and cultural norms where you are working.  In some cases, it makes sense to have another note-taker or translator also present in the room who can make the customer feel at ease, or who can add additional context to their remarks.

### 5. Keep it human.

Don't feel like you have to stick rigidly to a script.  Make time to build rapport, whether that means telling a personal story, or asking about someone's day before you launch into questions.  Especially if you are working with people from a culture other than your own, try to be respectful of their notions of time and space.  You may have to accept several cups of tea or a meal before you get down to business.

### 6. Make people comfortable enough to criticize your idea.

You want to create a space where people feel able to give you honest feedback. Sometimes the least helpful thing you can hear is: "Yes, your idea sounds great." Especially if you are entering a new community, people might be too polite to criticize or poke holes in your solutions.  The more you can introduce a real experience to them or put a real product in their hands and have them walk through an interaction, the more authentic the insights you will usually gain.  Look for the points where they get confused, or where they respond in a way you didn't anticipate, and then ask them about these specific moments.

Most people love to narrate their experiences, and you'll get the juiciest insights if you can slow them down and ask them to describe in step-by-step details how a particular process or event unfolded.  The journalist Anna Sale from NPR says that whenever she is conducting an interview, she tries to picture how the events that

# 10 TIPS FOR TALKING TO CUSTOMERS

someone is describing would happen.  She says: "If I can't picture the moment they're describing I'll just try to dig in a little bit more." Pay particular attention to stories people have about pains they want to solve, or when they describe solutions they've hacked together.  These can often become the kernel of an idea for a new solution.

> "It's the result of listening, of feeling listened to, that people open up. I look like a crazy person when I do interviews, because sometimes someone will be describing something and I will close my eyes and try to picture what they're telling me. And if I can't picture the moment they're describing I'll just try to dig in a little bit more."
>
> —Anna Sale

### 7. Seek out stories.
Most people love to narrate their experiences, and you'll get the juiciest insights if you can slow them down and ask them to describe in step-by-step details how a particular process or event unfolded.  The

journalist Anna Sale from NPR says that whenever she is conducting an interview, she tries to picture how the events that someone is describing would happen.  She says: "If I can't picture the moment they're describing I'll just try to dig in a little bit more." Pay particular attention to stories people have about pains they want to solve, or when they describe solutions they've hacked together.  These can often become the kernel of an idea for a new solution.

> "I'm insistent that the founders need to be the ones getting outside the building (physically or virtually) to validate all the initial hypotheses of the business model and product. If you hire a VP of Sales with the idea that they can do customer discovery you violated the first principle of Customer Development – this isn't a step the can be outsourced."
>
> —Steve Blank

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# 10 TIPS FOR TALKING TO CUSTOMERS

**8. Don't allow interviews to interfere with critical services.**

This is hopefully obvious, but when you're working in the social sector, you might be dealing with people who are sick or vulnerable or dealing with pressing issues. For example, if you are trying to design new products for hospital patients, it might make sense to talk to their families in the waiting room, rather than interfering with busy doctors or patients themselves. Or if you are talking to low-income mothers at a playground, make sure they can still keep an eye on their kids, even as you interview them. Consider the pressures your customers may be facing and choose circumstances for your interviews or product tests that take these realities into account.

**9. Listen for behavior change, not just verbal affirmation.**

Most development workers can tell you the story of a community they worked with, where people eagerly accepted a handout of a new product, but then just put it in the corner to collect dust. Teachers accept new textbooks, but then lock them in the closet so the pages won't get dirty. Housewives accept a new cookstove, but keep using their traditional oven. Ask for people to tell stories to get more color on how they actually use things, rather than just asking

them whether or not they would use your product or service. Frame your questions so that they elicit precise details rather than vague affirmations. For example, ask something like "When was the last time you…."

**10. Look for trends and patterns. You're not a scientist.**

You don't need to be collecting data that could be peer-reviewed and published in the next issue of Science, but you should be as thoughtful and methodologically rigorous as possible. Take notes and photographs or videos to document multiple aspects of your interaction. Once you've conducted your first few interviews, look for trends and patterns and then update your interview script to probe those areas of particular interest. When you start to identify themes across the stories that multiple customers tell you, or identify similar ways they interact with your products, you know you're on to something.

# CASE STUDY: WATSI

Watsi is a crowdfunding platform that allows individuals to contribute to healthcare for people around the world. As the first non-profit accepted into Y-Combinator (a Silicon Valley incubator), Watsi has always been on the cutting edge of incorporating Lean methods into its work in the social sector.

In 2014, the team at Watsi led by Grace Garey decided to launch a new product: a Universal Fund that would allow individual supporters to make recurring monthly donation. Rather than simply adding a "Make a Monthly Donation" button to its website like many non-profits, the team at Watsi decided to figure out what would inspire their customers to sign up for this type of contribution plan and then build a product to meet those needs.

They didn't "get out of the building" in a literal sense, but instead leveraged basic tech tools to conduct customer discovery. Read through the box on the right to find out how. Then check out:

+ First Round Review piece about Watsi

+ Watsi website to see the Universal Fund page firsthand

**How Watsi Found Their Customers**
They added a simple checkbox to their donation form asking people if they would be willing to make a regular contribution.

**How They Contacted Customers**
They sent an email survey to "the first few hundred people who had checked the box for recurring donations."

**What They Asked Them**
Watsi's team borrowed a customer discovery technique from Eric Ries: they asked them to define what the term "Universal Fund" meant to them in their own words.

**What They Did With These Insights**
They launched a distinct Universal Fund landing page and realized that people were not interested in funding individual patients exclusively, but also were interested in donating continuously to help "underserved patients in general." These insights help them successfully build a product which now provides 20% of their revenue.

**Close the Feedback Loop**
They send customers a monthly email introducing them to the patient their donation supported, as well as an update about the patient after they receive care.

# CASE STUDY: FRONTIER MARKETS

In India, more than 73 million households lack access to energy and are left to rely on kerosene to light their homes. While several companies have created innovative products to provide clean, reliable energy, the challenge lies in getting those products into the hands of the customers. India's poor infrastructure and connectivity makes last-mile distribution particularly costly and challenging for energy enterprises serving low-income customers.

Ajaita Shah founded Frontier Markets to tackle the problem of distribution to bring access to affordable, renewable energy to India's poor. The company is resolving supply chain challenges and providing after-sales service to ensure customer satisfaction and retention. They partner with several trusted retailers that sell energy products such as solar lanterns and home systems and have worked with a network of 185 existing brick-and-mortar stores to improve access to energy solutions among rural populations in India.

Yet, when Ajaita started talking to farmers in rural India, she began to hear that existing solar lanterns weren't solving all of their needs.

In particular, she heard about wandering cows that were straying into fields and eating valuable crops. This posed a challenge for these rural farmers because, in India, cows are sacred and no one wants to kill or hurt one, even if it is eating precious crops.

Her conversations with customers gave Ajaita an idea. What if they could use a high-beam torchlight to shine a far distance and scare off the cows? She quickly was able to generate a prototype by using 3D printing and now has a demo product that she can go out and test with customers.

**How Frontier Markets Used Lean**

+ Conducted customer discovery with farmers to figure out their needs that were not being met by existing solar lighting solutions.

+ Quickly 3D-printed a low-cost minimum viable product to test with farmers before moving ahead with large-scale, expensive manufacturing and distribution.

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# FURTHER READING & REFLECTION

Now it's time to get out of the building!

In the assignment for this week, you'll have an opportunity to map out your target customers, early adopters and key stakeholders, and figure out strategies for how you can find each of these types of people to talk to. Then you'll prepare an interview guide for these conversations. Finally, we'll challenge you to get out and talk to at least 1 potential customer before next week so that you can begin to test and validate your hypotheses with them.

## REFLECT
+ What are 3 tips that you found in the case studies and readings that you think you might be able to apply right away?

+ If you have past experience talking to customers, what tips would you suggest to others? Share your thoughts in the discussion forum on NovoEd.

+ What factors do you think you have to consider when conducting interviews and customer discovery in the social sector that might be different from if you were talking to people about more "traditional" startup products or services?

**Looking to Read More?**
Check out these additional resources:

+ _Talking to Humans_ by Giff Constable (free ebook available)

+ What Startups Can Learn from Watsi's Wildly Successful Email Marketing Campaign

+ Customer Development Interviews: How-To Blog Post by Cindy Alvarez

+ 8 Tips for Conducting Interviews that Deliver Relevant Customer Insights from Strategyzer