Customer Development Manifesto

Rule No. 1: There are no facts inside your building, so get outside.

A startup is a faith-based enterprise built on its founders' vision and a notable absence of facts. The founders' job is to translate this vision and these hypotheses into facts. Facts live outside the building, where prospective customers live and work, so that's where you need to go. Nothing is more fundamental to Customer Development, and nothing is harder to do. It's much easier to write code, have meetings and build hardware than it is to find and listen to potential customers. But that's what separates the winners from the losers.

Rule No. 2: Pair customer development with agile development.

Customer Development is useless unless the product development organization can iterate the product with speed and agility. If Engineering builds the product using waterfall development, it will be deaf, dumb and blind to customer input except during a short period when it's specifying the product. The rest of the time, engineers are locked into an implementation cycle, unable to change the product features without intolerable delay. By contrast, a startup engineering organization using an agile methodology is designed to continually take customer input and deliver a product that iterates readily around a "minimum value product" (MVP) or its minimum feature set.

Rule No. 3: Failure is an integral part of the search.

One of the big differences between a startup and an existing company is the one that's never explicitly stated: "startups go from failure to failure." In a startup, you're searching, NOT executing, and the only way to find the right path is to try lots of experiments and take a lot of wrong turns. Failure is a part of the process. Failures are not truly failures, per se, but an integral part of the startup learning process. You'll be running dozens, if not hundreds, of pass/fail tests – on your pitch, your features, your pricing, and on and on – so get ready to accept failure and move on. When something isn't working, successful founders orient themselves to the new facts, decide what needs fixing, and act decisively. This process *demands* frequent, agile iteration, followed by testing of the iteration, which often leads to another iteration or pivot, which leads to more testing and…….. If you're afraid to fail in a startup, you're destined to do so.

Rule No. 4: Make continuous iterations and pivots.

Embracing failure in Customer Development demands frequent, agile iteration and pivots. A pivot is a substantive change in one or more of the nine boxes of the Business Model Canvas (for example, a pricing change from freemium to subscription, or a customer segment shift from boys to women). Iterations are minor changes to business model components (e.g., changing pricing from $99 to $79). When a company is limping along, only a dramatic change to one or more of its business model components can get it back on the road to success. Groupon's legendary $12 billion pivot (their IPO valuation) is a perfect example. Read about it here: http://www.businessinsider.com/groupon-pivot-2011-3?op=1.

Rule No. 5: No business plan survives first contact with customers so use a business model canvas.

There's only one reason for a business plan: some investor who went to business school doesn't know any better and wants to see one. But once it has delivered financing, the business plan is fundamentally useless. Entrepreneurs often mistake their business plan as a cookbook for execution, failing to recognize that it is only a collection of unproven assumptions. A revenue plan blessed by an investor, and composed overwhelmingly of guesses, suddenly becomes an operation plan driving hiring, firing and spending. Insanity. The difference between a static business plan and dynamic business model could well be the difference between a flameout and success. Startups should dump the business *plan* and adopt the flexible business *model* (refer to the Business Model Canvas worksheet for its components).

As a startup moves through this process, it uses the Business Model Canvas as a scorecard by posting the hypotheses about each component of the model and then revising them as the founders gather facts. Think of your first version of the business model canvas as the starting point showing the hypotheses that must be confirmed in actual interaction with customers. More often than not, the customers will reject components of the model, saying, "I'd rather buy that from a retailer," or "the product needs these features to be important to me." As customers approve or dispute the business model hypotheses, the company either accepts the customers' approval or pivots to change its model to better target the opportunity. Using the canvas as a guide makes it easier to figure out where and how to pivot. Each time the founders iterate or pivot in response to customer feedback, they draw a new canvas showing the changes. Over time, these multiple canvases for a "flip book" that shows the evolution of the business model. Agile startups can end up with a six-inch-thick stack of canvases they can burn at the IPO-celebration bonfire.

Rule No. 6: Design experiments and test to validate your hypotheses.

Initially, hypothesis is just a fancy word for "guess." To turn hypotheses into facts, founders need to get out of the building and test them in front of customers. How do you test? And what do you want to learn? Testing and learning require you to be thoughtful on constructing and designing your tests. We call this "designing the experiments." Experiments are short, simple, objective pass/fail tests. You're looking for a strong signal in the signal/noise ratio, something like five of the first 12 customers you call on saying, "I need this right now, even if it's still buggy." Early tests aren't always precise, but should give you a "good enough" signal to proceed. Start by asking yourself, "What insight do I need to move forward?" Then ask, "what's the simplest test I can run to get it?" Finally, think about, "how do I design an experiment to run this simple test?" One of the things that trips up engineering founders is thinking that these tests have to be actual code, hardware, or the real product. Most of the time, you can mock-up a web page or create a demo or physical prototype to elicit valuable learning.

Rule No. 7: Agree on market type. It changes everything.

Not all startups are alike. One of the key ways in which they are different is in the relationship between a startup's new product and its market. These product/market relationships generally fit one of these descriptions:

- Bringing a new product into an *existing market*
- Bringing a new product into a *new market*
- Bringing a new product into an existing market and trying to re-segment that market as a *low-cost entrant*, or re-segmenting that market as a *niche entrant*, or *cloning* a business model that's successful in another country.

Market type influences everything a company does. Strategy and tactics that work for one market type seldom work for another. Market type determines the startup's customer feedback and acquisition activities and spending. It changes customer needs, adoption rates, product features and position as well as its launch strategies, channels and activities. Startup companies generally enter one of these market types and ultimately must commit to one. The consequences of a wrong market-type choice will prove to be severe in the customer creation stage. While market type is ultimately a "late-binding decision," a working hypothesis helps frame early customer discovery issues.

Rule No. 8: Startup metrics differ from those in existing companies.

Existing business have established tools for measuring performance – P&Ls, balance sheets, cash flow forecasts, etc. Here's hoping your startup becomes big enough to need them someday. We now know that startup metrics should focus on tracking the startups progress converting hypotheses into incontrovertible facts rather than measuring the execution of a static plan. These hypotheses should be continuously tested by management and the board until the entire business model is worth scaling into a company. Management and investors must agree on a set of metrics that truly matter. These should track the results of pass/fail tests and the resulting iterations:

- Have the customer problem and product features been validated?
- Does the minimum feature set resonate with customers?
- Who, in fact, is the customer and have hypotheses on the value proposition, customer segments, and channels been validated through face-to-face customer interaction?

The relatively few financial metrics to be tracked are cash-burn rate, number of months' worth of cash left, short-term hiring plans, and amount of time until the company reaches cash-flow break even.

Rule No. 9: Fast decision-making, cycle time, speed and tempo.

Speed matters at startups where the only absolute certainty is that the bank balance declines every day. Pivots and iterations should happen the faster the better. The faster these cycles happen, the greater the odds of finding a scalable business model with the cash on hand. If cycles happen too slowly, the startup runs out of cash and dies. The biggest impediment to cycle time is psychological: it requires the admission of being wrong or even of suffering a short-term tactical defeat. Most startup decisions are made in the face of uncertainty. There's seldom a clear-cut, perfect solution to any problem and founders shouldn't agonize over trying to find one. This doesn't mean gambling with the company's fortunes on a whim. It means adopting plans with an acceptable degree of risk and doing so quickly. Make sure these decisions are fact-based, not faith-based. Agile startups have mastered another trick: tempo – the ability to make quick decisions consistently and at all levels in the company. Speed and tempo are integral parts of startup DNA, and a great startup's tempo is often 10 times that of a large company.

Rule No. 10: It's all about passion.

A startup without driven, passionate people is dead the day it opens. "Startup people" are different. They think different. In contrast, most people are great at execution. They work to live, do their jobs well, and enjoy their family, their lives, and their hobbies. The people leading almost every successful startup in history are just different. They're a very tiny percentage of the world population, and their brains are wired for chaos, uncertainty, and blinding speed. They're irrationally focused on customer needs and delivering great products. Their job is their life. It's not 9-to-5, it's 24/7. These are the people who found high-growth, highly-successful scalable startups.

Rule No. 11: Startup job titles are very different from a large company's.

In an existing company, job titles reflect the way tasks are organized to execute a known business model. For example, "Sales" means there's a sales team repeatedly selling a known product to well-understood customers, using a standard corporate presentation with standard price terms, etc. *Startups demand executives who are comfortable with uncertainty, chaos and change*. They need executives who are:

- Open to learning and discovery – highly curious, inquisitive, and creative
- Eager to search for a repeatable and scalable business model
- Agile and confident enough to deal with daily change, and operating "without a map"
- Readily able to wear multiple hats, often on the same day
- Comfortable celebrating failure when it leads to learning and iteration
- Able to listen to customer objections and determine whether they are issues about the product, the presentation, the pricing, or something else (or if they are the wrong type of customer)
- Experienced in talking to and moving between customers and engineers
- Able to walk in their customers' shoes, understanding how they work and the problems they face.

Rule No. 12: Preserve all cash until needed. Then spend.

The goal of Customer Development is not to avoid spending money, but *to preserve cash while searching for the repeatable and scalable business model. Once found, then spend like there's no tomorrow*. This paragraph is worth deconstructing:

- *Preserve cash*: when a startup has unlimited cash, it can iterate on its mistakes by burning more dollars. When money is tight, without dollars to redo mistakes, it's crucial to minimize waste. The Customer Development process preserves cash by not hiring any sales and marketing staff until the founders turn hypotheses into facts and discover a viable product/market fit.
- *While searching*: Customer Development observes that at the start, the company and its business model are based solely on hypotheses, not facts, and that the founders need to get out of the building to turn these hypothesis into customer data.
- *Repeatable*: Startups may get orders that stem from board members' customer relationships, engineering one-offs, or heroic single-shot efforts by the CEO. Although great, they aren't repeatable by a sales organization. Search not for the one-off revenue hits, but rather for a pattern that can be replicated by a sales organization or by customers regularly visiting the website.
- *Scalable*: The goal is not to get one customer, but many – and for each additional customer to add incremental revenue *and* profit. The test is: Does the addition of one more salesperson or more marketing dollars bring in more gross profit (or users or clicks) than you invested? Who influences a sale? Who recommends a sale? Who is the decision-maker? Who is the buyer? Where's the budget for purchasing this type of product? What's the customer acquisition cost? Affirming the *repeatable, scalable sales model* is the customer validation step and most important phase of this process.
- *Business model*: How the company makes money. Is this a revenue play, or is it a freemium model seeking users? Something else? Who's the customer?
- *Spend like there's no tomorrow*: The goal of an investor-backed startup is not to build a lifestyle business. The goal is to reach 10 times the return on investment, or more. When management and board agree that they've found a repeatable and scalable sales model, *then invest to create end-user demand and drive those customers into the sales channel*.

Rule No. 13: Communicate and share learning.

Share everything that's learned outside the building with employees, co-founders and investors. The best way to do this is via a blog or a Customer Relationship Management tool. Record your starting hypotheses, who the tea has talked to, the questions asked, the tests conducted, what's been learned, and questions for advisors or investors. It takes a lot less time than weekly meetings. The result is a communications tool allowing outsiders to see the company's progress and offer suggestions and course corrections.

Rule No. 14: Customer development success begins with buy-in.

For Customer Development to succeed, *everyone* on the team –founders, investors, engineers, marketers, accountants – needs to realize that this process is vastly different from *executing a plan*, all the way to its core. If the engineering VP is talking waterfall development of the board demands a rigid timetable, then it is destined for disaster. Everyone must accept the process, recognizing that this is a fluid, nonlinear *search for a business model* that sometimes can last for years. Customer Development *reinvents the business model on the fly*, iterating often and pivoting whenever indicated. Founders need to have the commitment of the team *and* board before embarking on this process. Comments like "we can't change the features since development is underway" or "we need to launch to make the plan numbers" are all red flags. To succeed, the company must commit to this process, stressing learning, discovery, failure, and iteration in the search for a successful business model.

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