The Road to a $100M Company Doesn’t Start with Product — Brian Balfour

Written By Brian Balfour

15-19 minutes

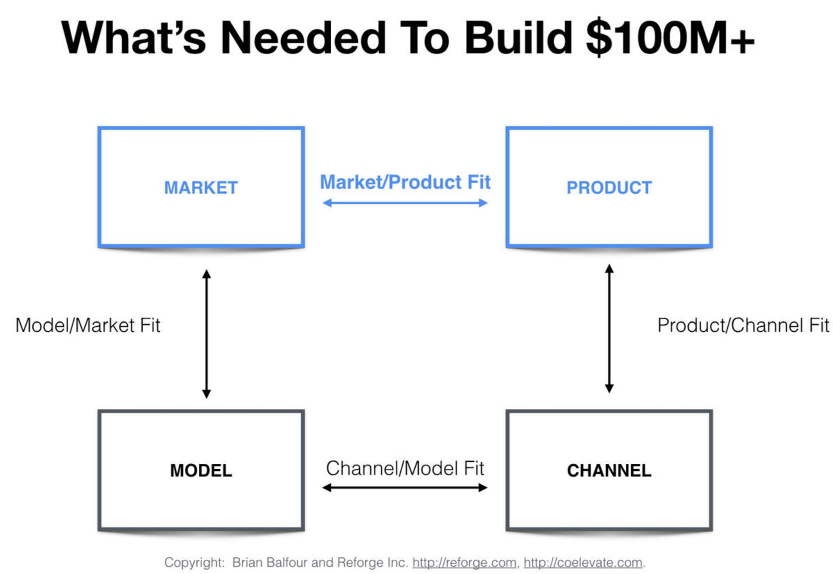
This post is part of a 5-part series on the frameworks you need to align to grow to a $100M+ company. Subscribe to get the rest of the series and access to the videos.

In the introduction to this series I made the point that Product Market Fit isn't the only thing that matters. It is actually only one of four fits needed to grow a product to $100M+ in a venture-backed time frame.

While Product Market Fit isn't the only thing that matters, it *is* important, so it makes sense that there are no shortage of blog posts explaining Product Market Fit, and how to get it.

Instead of echoing the many great Product Market Fit explainer posts out there, I'm going to focus on the 5 elements of Product Market Fit that I believe are most misunderstood and overlooked:

- The wrong way to search for Product Market Fit.
- Why we should be thinking about it as Market Product Fit.
- How we defined our market and product hypotheses for early versions of HubSpot Sales.
- What the search for market product fit looks like in reality, not just in theory.
- Qualitative, Quantitative, and Intuitive signals of market product fit.



In 2008 I co-founded a company called Viximo. We raised $5M out of the gate from top tier VCs to build a virtual goods platform (this was pre-Facebook platform days). I remember sitting in one of our first board meetings saying something similar to:

This probably seems like a reasonable statement to many (I hear it all the time in startup pitches), but there’s one serious problem with it. We had a solution (virtual goods platform) that was looking for a problem and a market (dating sites, social networks, etc.). In other words, we were putting the cart before the horse.

What we should have done instead was to focus on the problem and market, then search for the solution. This common mistake is why I prefer “Market Product Fit” over the terminology “Product Market Fit.”

The reason for this is because the real problem is something experienced within your market and by your audience, not something that lives within your product. While that phrasing might sound like a small change, *language matters*. How we word things affects how we think about things.

Searching For Market Product Fit The Right Way

When I got to HubSpot, I joined a brand new division in the company with just six other people. We were tasked with building the road to a second $100M line of business (the HubSpot Marketing product being the first), so it was a lot like running a startup within the larger Hubspot org.

Luckily, by this point I had learned my lesson from the Viximo days. Rather than focusing on the product first, we narrowed in on defining the market.

There were four key market elements that we looked at:

- **Category**. What category of products does the customer put you in?
- **Who**. Who is the target audience within the category? There are always multiple personas within a single category, so this breaks it down further.
- **Problems**. What problems does your target audience have related to the category?
- **Motivations**. What are the motivations behind those problems? Why are those problems important to your target audience?

While I find most companies really understand the “category” and the “who,” defining the problems and the motivations behind those problems is far more important.

Here is what these four elements roughly looked liked for our HubSpot division:

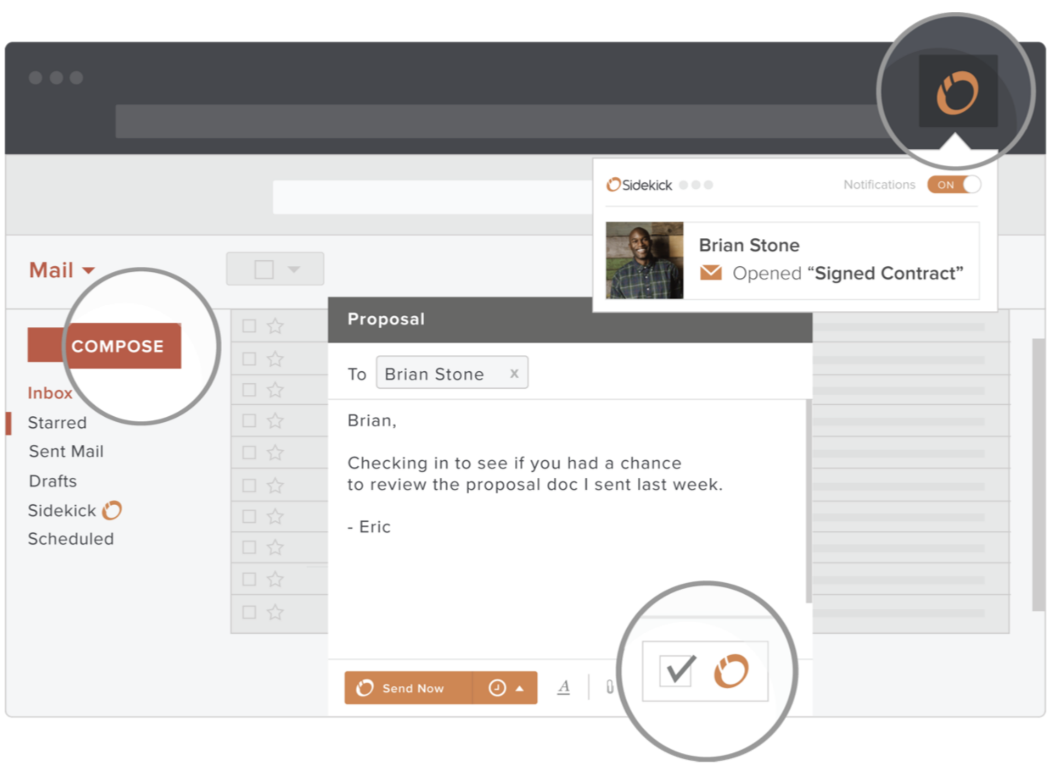
We Started With The Market

Category:	• **Sales,** Customer Service, Project Mgmt?
Who:	• VP • Sales Manager • **Rep**
Problems:	• Hates inputting data into CRM • **Doesn't know where their prospects stand "shooting blind"** • Sales training is useless
Motivations:	• Money (hitting quota) • **Constant Uncertainty** • Competition (beating other reps)

We explored multiple things in each bucket, but where we ultimately ended up the following combination of market elements:

- **Category**. Sales Software
- **Who**. The individual contributor. There were also two sub-types of ICs: SDRs and Account Reps.
- **Problem**. Not knowing where a prospect or client stood in the process.
- **Motivation**. A couple of motivations: 1) Money. Knowing where a prospect was led to better prioritization and selling which led to more closing. 2) Uncertainty. The target audience life was filled with constant uncertainty. Relieving that uncertainty was a big deal.

Out of this problem and market definition, the team started thinking about the product (solution). Through the awesome work of Christopher O'Donnell, Dan Wolchonok and a few others, they formed a really simple tool called Signals, which was then rebranded to Sidekick, and then rebranded again to HubSpot Sales (more on this later).



The product was extremely simple. It consisted of a Chrome extension that, with a click of a checkbox, let you track your emails and get instant notifications on who opened and clicked on your emails.

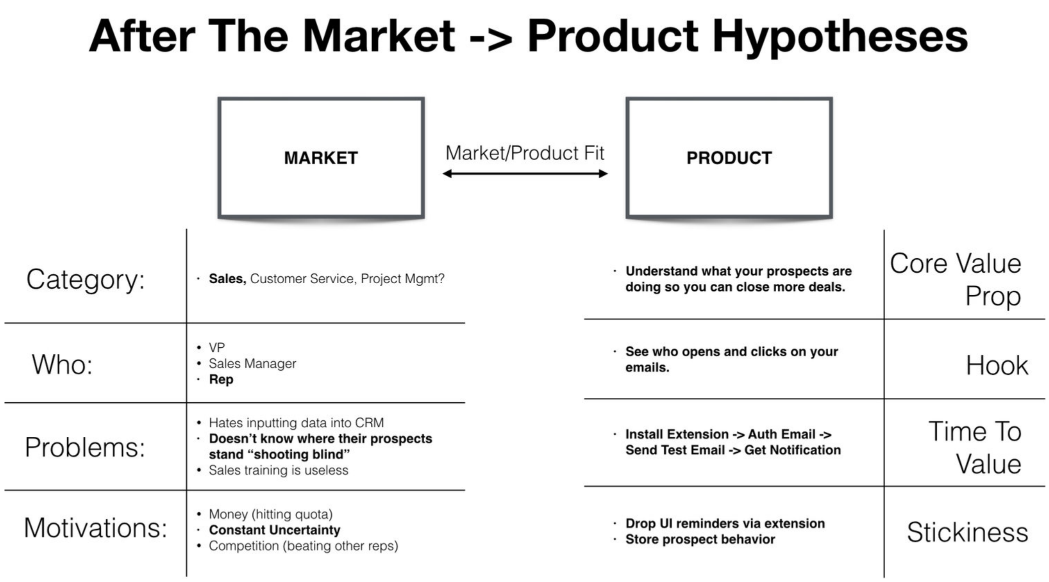
While this seems simple, back then our initial audience thought it was some voodoo magic. It helped solve that problem of knowing where their prospects stood. They now had an indication of where the prospect was -- if the prospect saw the email, if they clicked or viewed a proposal, if they forwarded it around their company, and more. The core product was free, with a $10 tier for unlimited notifications.

This brings us to the next group of elements in defining Market Product Fit -- the product hypotheses elements. The four main elements that were important to define as product hypotheses were:

- **Core Value Prop**. What was the core value prop of the product? How did it tie to the core problem?
- **Hook**. How could the core value prop be expressed in the simplest terms?
- **Time To Value**. How quickly could we get the target audience to experience value.
- **Stickiness**. How and why will customers stick around? What are the natural retention mechanisms of the product?

For the Signals product, the hypotheses looked like this:

- **Core Value Prop**. Understand what your prospects are doing and thinking, so you know how to sell better.
- **Hook**. See who opens and clicks on your emails.
- **Time To Value**. Quick (less than 1 minute). Install Extension -> Auth Email -> Send Test Email -> Get Notification. That instant notification demonstrates the value.
- **Stickiness**. High. Product only requires a user to keep checkbox checked to keep receiving notifications, and every notification reengages people with the product. With the Chrome Extension, we could also drop hints in the UI to further keep people engaged.



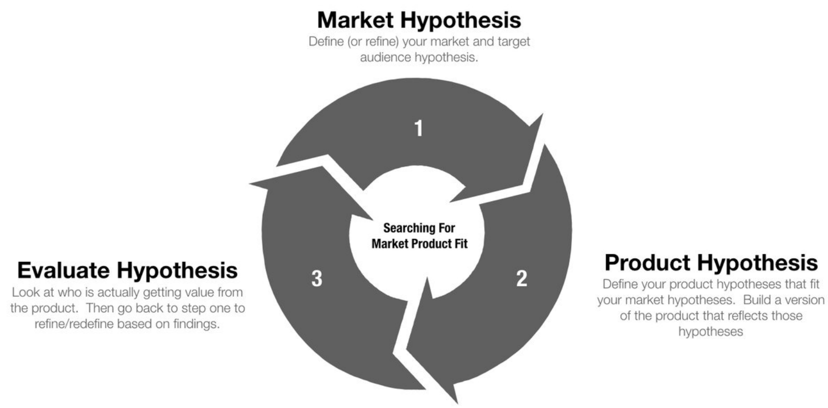
These hypotheses are extremely important to lay out. As you will see in future posts of the series, it informs and deeply affects the other components of the framework like Channel and Model.

Get notified of future posts in this series.

The Reality Of Searching For Market Product Fit

In practice, the search for market product fit is never a straight line. Instead, it happens over multiple cycles of iteration. You start with a market, build an initial version of the product, look at who actually gets value from the product, then redefine the market and redefine the product.

Market Product Fit Is Iterative



This is exactly what happened with Signals. We laid out the early hypotheses above. But once we dug in, we found a lot more target personas outside of our sales audience hypothesis were getting deep value out of the product. Great news! We found a lot of marketers, business owners, and other professionals using the product just as deeply as the sales professionals that were our core personas.

So, we refined the category, the who, the problem, and the motivations to what we were actually seeing. The second version looked liked this:

Market -> Product Hypotheses Version Two

	MARKET	PRODUCT	
Category:	· Productivity	· Understand what your contacts are doing so you can be more productive.	Core Value Prop
Who:	· Relationship driven professionals (Sales, BD, Marketers, Owners, etc)	· See who opens and clicks on your emails.	Hook
Problems:	· Hard to keep up with network. Lots of time to understand whats important.	· Install Extension -> Auth Email -> Send Test Email -> Get Notification	Time To Value
Motivations:	· Relationships drove their success.	· Drop UI reminders via extension · Store prospect behavior	Stickiness

The refinement didn't stop here. We had another major shift about a year in which I'll talk about in future posts.

Market Product Fit Is Not Binary

The iteration cycle of market product fit brings us to another key point:

Market Product Fit is not binary. It's also not a single point in time.

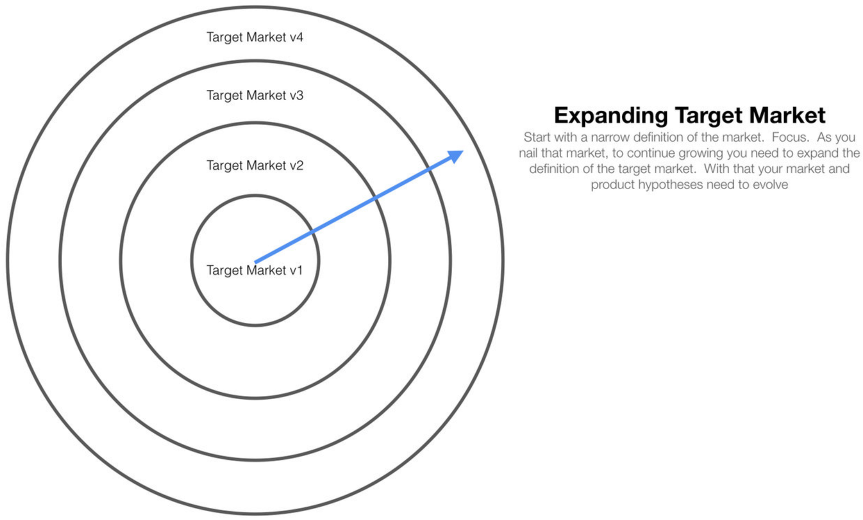
A better way to think about Market Product Fit is on a spectrum of weak to strong.

When you imagine Market Product Fit as a binary concept, it implies that your market and product components don't change. We know in practice, as in the Signals case, that this is far from the truth. Once again we should be letting the market lead the way in this ongoing process.

There are two primary ways that the market changes for a startup.

1. EXPANDING MARKET DEFINITION

Most startups start with a very niche market and expand the definition of their market outwards into larger and larger markets. Think of it like starting at the center of a bullseye and expanding out into concentric circular layers.



To expand into these concentric layers, the product typically needs to change to maintain the strength of market product fit.

Sometimes moving into these segments of a target audience are an iteration. Other times, they require much bigger changes. Understanding how big of a change is required starts with a deep understanding of the audience's problems and motivations.

2. THE MARKET EVOLVES

At the same time, markets don't sit still. That means the markets with which you have strong Market Product Fit will evolve over time.

For example, think about the shift from web to mobile. Facebook was one of the companies who successfully made the tough transition. Sheryl Sandberg has said that to do this, the company didn't ship new features for a whole year just to make sure they nailed this market transition.

Signals Of Market Product Fit

If Market Product Fit isn't binary, then how do you know if you have Market Product Fit? There has been a decent amount written about this, but most of it doesn't reflect reality.

With almost everything, you need to combine qualitative measurements with quantitative measurements with your own intuition. We trick ourselves when we only look at one of these areas. It's a lot like trying to get a full picture of an object with only a one dimensional view.

How do we combine qualitative, quantitative and intuition indicators to understand how strong of Market Product Fit we have?

1. QUALITATIVE

The typical starting point with measuring Market Product Fit are qualitative indicators because they are the easiest to deploy and require the least amount of customers and data.

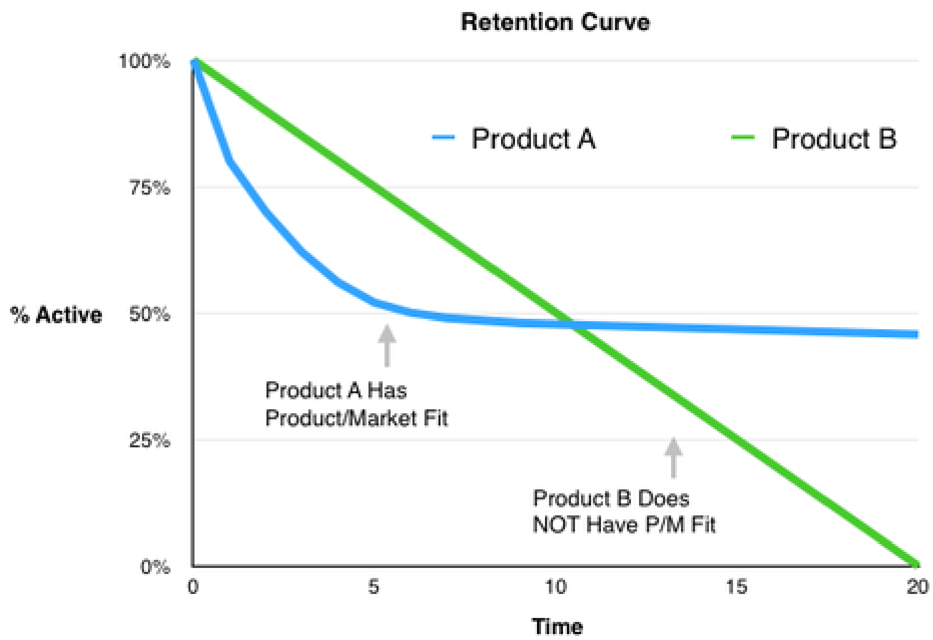
To get a qualitative understanding, my preference is to use Net Promoter Score (NPS). If you are truly solving the audience's problem, then they should be willing to recommend your product to a friend.

The biggest downside with qualitative information (vs quantitative) is that it carries a higher probability for generating a false positive result, so take it with a grain of salt.

2. QUANTITATIVE

There are two quantitative measures to understand Market Product Fit: Retention Curves and Direct Traffic.

In 2013 I first spoke about how flat Retention Curves indicate Market Product Fit. So I won't rehash those points here.



There are some businesses where you can still have Market Product Fit with retention curves that aren't flat. For example, an online dating product has natural churn built into success. A new insurance tech company where success for a customer is finding an insurance plan will also have natural churn built in. But for 80% of B2C and B2B products out there, flat retention curves is what you are looking for.

The second quantitative indicator is direct traffic. Direct traffic is typically the result of word of mouth. If you are truly solving an audience's problem, they tend to tell friends. It might not be a lot of direct traffic, but there should be some.

The two combined (flat retention curves and direct traffic) mean that a product with Market Product fit will grow naturally without additional efforts like paid marketing.

Sometimes I like to ask the question, "If you turned off all your marketing efforts today, would you keep growing?" The answer should be yes. The growth might be slow, but it should still be naturally growing.

3. INTUITION

Intuition is about gut feeling, and it's hard to verbalize. It's hard to understand intuitively if you have Market Product Fit unless you've been part of some situations where you don't have it and some situations where you do have it. I've been in both situations. So has Peter Reinhardt, founder/CEO of Segment, who I think has had the best description of how Market Product Fit feels:

> "Product market fit doesn't feel like vague idle interest. It doesn't feel like a glimmer of hope from some earlier conversation. It doesn't feel like a trickle of people signing up. It really feels like everything in your business has gone totally haywire. There's a big rush of adrenaline from customers starting to adopt it and ripping it out of your hands. It feels like the market is dragging you forward.
>
> I think the Dropbox founders said this best that product market fit feels like stepping on a landmine...when we did find product market fit, I thought for sure, this is too tiny to matter but it actually solved a real problem and the market demanded it and ripped it out of our hands."

The point here is when you have strong Market Product Fit, it feels like the market is pulling you forward vs you pushing something on the market.

The Key Points

- Start with the market (problem), then the product (solution). Not the other way around.
- Define your market hypothesis using Category, Who, Problems, Motivations with most of your work going into Problems/Motivations.
- Define your product hypothesis using Core Value Prop, Hook, Time To Value, Stickiness.
- Think of Market Product fit as a cycle.
- Understand that Market Product fit is not binary. Instead, it's a spectrum of weak to strong.
- To understand if you have Market Product Fit, combine the qualitative, quantitative and intuitive indicators.

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