the Entrepreneur's Guide to Customer Development

FREE CHAPTER
Customer Development

BY BRANT COOPER
Speaker | Author | Disruptor

What Customer Development is

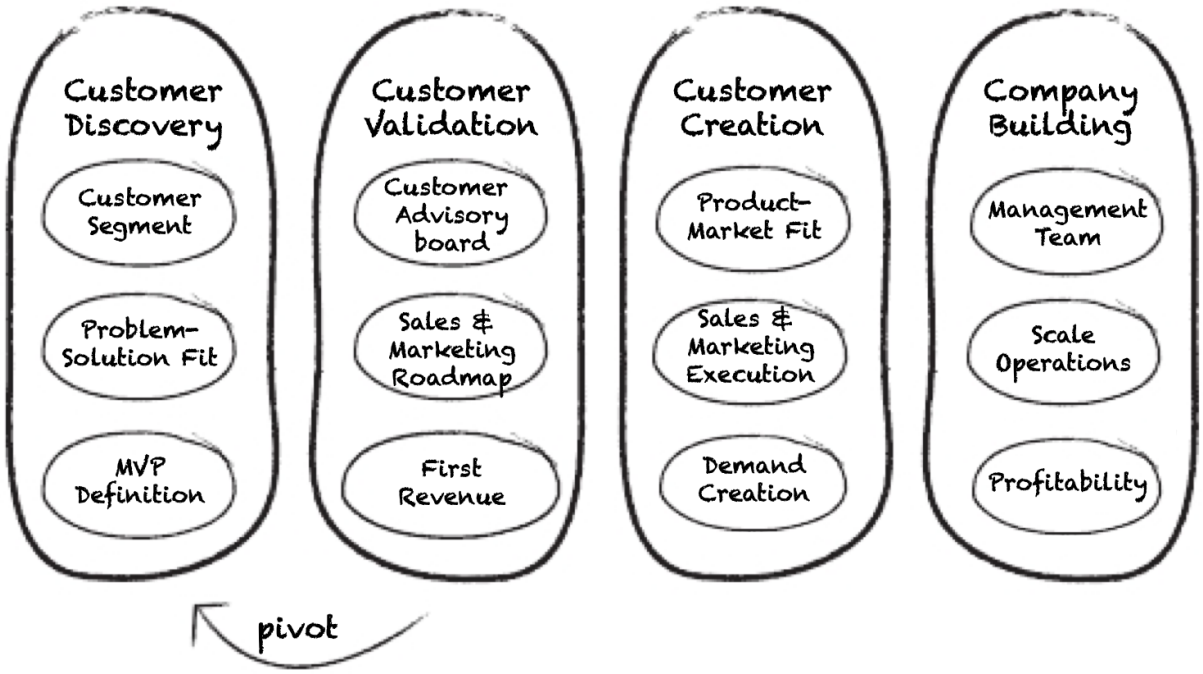
Customer Development is a 4-step framework for building new businesses, using iterative, learning processes to discover the right customers, validate the product, grow the acquisition and conversion of customer segments, and operationalize the business at scale.

(anti-) Principles

Customer Development was developed by UC Berkeley Professor, Steve Blank, in the mid-2000s, and introduced in the book *The Four Steps to the Epiphany*. The book, which Blank describes as a collection of lecture notes, is not an airport business book. It is an extremely detailed template for a specific kind of business, namely a B2B tech startup. He provides precise reasoning for each templated item. Blank doesn't lay out a set of principles per se, but offers instead a set of anti-principles derived from the core tenet: Don't build small companies to look like big companies. (At least not at the outset.)

Here's my take on Blank's description of the old (wrong) way of building a startup:

The Customer Development model suggests another way. Blank goes into great detail regarding his four steps, the 4 phases for each step, and the multiple tasks required for each phase.



Customer Discovery

Customer Discovery describes Interacting with potential customers in order to learn who the right customer is, what their real problems and needs are, and whether the solution/ idea seems to fit.

The Customer Discovery steps are:

1. Document your assumptions, or as Blank says, “state your hypotheses” across the entire business model.

2. Test the assumptions by interacting with potential customers in various ways.

3. Iterate on your product idea based on learning and present this new idea to potential early adopters.

4. Restate all the hypotheses you documented in phase 1 and run through them again with potential customers.

Customer Validation

Customer Validation describes interacting with potential customers in order to turn them into customers; in other words, getting them to buy.

The Customer Validation steps are:

1. Put into place the messaging, people and processes based on the blueprint created during Discovery.

2. Form the customer advisory board.

3. Develop messaging and positioning and test with the market.

4. Refine and verify the repeatability of the blueprint.

Customer Creation

Customer Creation describes how to scale customer acquisition and conversion into customers.

The Customer Creation steps are:

1. Define marketing and selling strategy and objectives.

2. Ramp communications and marketing programs to properly position the company within the market.

3. Launch the company and product.

4. Ramp demand creation strategy to match sales objectives.

Company Building

Company building describes the structure, management and culture required to be a big company.

The Company Building Steps are:

1. Scale acquisition of mainstream customers.

2. Build a culture that delivers on the company's mission.

3. Create and scale functional departments.

4. Build fast decision-making into departments.

I will not go into detail about the specific components. If you want the details, buy Blank's book; also, not all phases, steps and tasks are created equal. Nor do you need to do them in precisely this way. Nor do they apply to a lot of businesses, especially as a lot of the scaling advice is now a bit outdated. The proliferation of Agile digital transformations, as well as the gargantuan successes of tech giants like Google, Facebook and Amazon are forcing organizations to look differently at not only how to scale, but how they look at scale. Startups in particular, but even big companies are looking for new ways to structure businesses so that a more entrepreneurial way of working is a natural output. (See Spotify's videos on their Engineering organization.)

Whether you are an established firm or a new startup, it's best to concentrate on the philosophies and principles, and to develop the right tactics from there. It's easy to get mired in a laundry list of all the things to do and forget the principles.

Why Customer Development?

Customer Development describes how to develop your awareness and acquisition of the right customers using an iterative, learning approach similar to how Silicon Valley developers create new offerings.

When you engineer and manufacture a product, you don't simply sit down, estimate how long it will take you, start building from scratch, work until the done date appears on the calendar, and then you have it: a successful, fully functional, marketable, salable version of a new product. Instead, you build some, test what you've built, look at results, learn what's wrong or deficient, fix and continue to build. You build, test, learn; build, test, learn; build, test, learn. You iterate through the creation of a working product.

This is how engineers overcome technical risk. You work this way until you overcome the various technical obstacles preventing the product from functioning as it was specified to. Or, perhaps, you reach an impasse. If the obstacles stopping your development are too severe, you kill the product. More likely, you compromise the original vision of the product by changing something fundamental to the vision that allows you to circumvent the impasse.

Customer Development is *developing customers* in a similar way. Despite the best efforts of Internet marketing gurus, brand geniuses and *Glengarry, Glen Ross* sales closers, companies that build products nobody wants, fail. Companies that don't learn who the right customers are, and how to market and sell to them, also, eventually fail. However, if you iterate through testing the specific marketing and selling tactics required to sell a new product to a specific market segment, you are more likely to find what works faster and more efficiently.

The same is true for other aspects of your business model. Packaging, distribution, marketing channels, revenue model, messaging, delivery, pricing, sales model and so on, all must be learned before executed upon. Existing knowledge, experience and even intuition play a role, but the blueprint doesn't exist for a new business, unless it's a franchise. It must be developed. That's the purpose of customer development.

Fundamentally, Customer Development requires questioning your assumptions. It applies an engineering-like process, or the "scientific method," to what is really not a scientific endeavor—building a business. Your process will resemble the scientific method by following these steps:

1. Observing and describing a phenomenon

2. Formulating a hypothesis to explain phenomenon

3. Using a hypothesis to predict the results of a specific action

4. Measuring predicted performance based on experiments

This process is used to discover and validate the following business-related information:

- The existence of an identifiable group of people who share a problem or need or passion that a specific product addresses (Customer Discovery).
- This group is reachable, monetizable, and large enough such that a viable business might be built (Customer Validation).
- The business is scalable (Customer Creation).
- Company structure and operational processes can be created, sustained and profitable at scale (Company Building).

An old sales adage says that "maybe" is the worst answer you hear from a customer. You would rather hear "no," because you will re-dedicate resources toward a possible "yes." This principle also applies to Customer Development. The most desired outcome of implementing Customer Development is to successfully build the company you hope to build. The second most desired outcome is the realization that there is no market, or that the market is insufficient upon which to build the business you desire. The iterative aspect of Customer Development is designed to eliminate the middle ground between these two outcomes.

Each of the 4 steps is a gate. You either press on or "persevere;" "pivot" by changing core assumptions; or realize the market has rejected your idea and so you shutter the business.

Lean Innovation OG: Cindy Alvarez

Why she matters: How do you develop products that are vital to people's lives? In 2011, after more than a decade working at startups, Cindy became the Director of User Experience at Slack-precursor Yammer—an experience that empowered her to adapt the customer-focused development model created by Steve Blank to a new era of virtual collaboration.

Who should know Cindy: CEOs, product experts, entrepreneurs, anyone interested in combining qualitative research with quantitative data into offerings that customers cannot resist.

Why this is a big deal: That Zoom meeting you just had? That product team you just checked in with to review the latest user feedback? That development issue you were able to surface based on iterative analysis? Cindy is one of the people who helped create this dynamic world, whose principles she outlined in *Lean Customer Development (*O'Reilly, 2014), a foundational handbook today used by anyone interested in agility and preserving a culture of dissent.

Where she is today: As Principal Group Product Manager at Microsoft, she is tackling the toughest, most ambiguous research problems across Microsoft's entire Cloud & Enterprise division. Helping the org to more deeply understand customer needs so they can continue to build better products and cloud services.

Cindy's checklist:

1. Validate or invalidate your hypothesis by talking to the right people

- Learn how to conduct successful customer interviews play-by-play
- Detect a customer's behaviors, pain points, and constraints
- Turn interview insights into MVPs Products to validate what customers will use and buy
- Adapt customer development strategies for large companies, conservative industries, and existing products

---

In preparing this new edition, we asked Cindy to reflect on the origin of her model and how it continues to inform and inspire a new generation of entrepreneurs.

Key Cindy Quotes:

On Customer Politeness: Customers should be complaining, should be begging for things. At a customer interview, where I didn't think they were being honest with us, I just blurted out…can I just ask something? If you could have anything, forget about it if it's possible. If you could have anything that our product could do for you, what would it be?

Do It Better vs. Do It Faster: How do we make people's lives better? And that's the version I asked internally if someone's getting really excited about a solution, I'll be like, okay, how's it going to make someone's life better?

And it's going to speed up this [project], I'm like, so what's someone going to do with that extra 10 minutes of time? Do more work? Go have a coffee? You're like, that sounds great, but there's a big difference between do it faster or not have to worry about it.

On Digital Transformation: Digital transformation, which is a phrase that I always say I have to do this afterwards because I can't take it seriously. But it's a combination of psychological safety and better communication and DevOps, essentially. Companies want those things which all require immense amounts of empathy, which they've never figured out how to build into their process before.

So that's my side job within Microsoft, doing talks about how to communicate with people. And it's the equivalent of the magic wand. When I say, okay, you're going to announce a potentially contentious topic to your team, how are you going to talk about it? And people giving me this paragraph of text. And I was like, why are we doing it? And they're like, well... And I'm like, no, I want a sentence. Write it now.

Further reading:

Lean Customer Development (O'Reilly, 2014)

10 useful insights you can learn from Cindy Alvarez as a #digitalfirst leader, via DIGOSHEN: https://digoshen.com/10-useful-insights-you-can-learn-from-cindy-alvarez-as-a-digitalfirst-leader/

Cindy Alvarez, on SlideShare: The presentations of this author, thinker, and workshop leader are available for perusal. From 2011 to the present: https://www.slideshare.net/cindyalvarez/presentations