Module 3. Customer Development

Unit 3.1 Customer Development Method: Go Out There to Look for Facts

In the first course, Vision and Team, we introduced Steve Blank by explaining his definition of startups. In this reading, we will go into one of the methods he proposes—and which we consider essential—that follows the reasoning of starting a project by first emphasizing the customers and their problems or needs and then launching the product in the market.

The method called customer development is shared by Blank and Dorf (2013) in a book that every entrepreneur should at least consult—*The Startup Owner's Manual*. In this book, they argue that successful products (or "winners", as the authors call them) are those that were conceived after having gone through a validation process with customers in the street. And, on the contrary, the products that fail (or lose) are those created within an office and sent to the Marketing and Sales areas that know little of the client's development.

Blank and Dorf (2013) state this in a very particular way, calling to action:

> There are no facts inside an office, so you have to go out there. Going out there means acquiring a deep understanding of customer needs and combining that knowledge with incremental and iterative product development. The mix of Customer Development and agile engineering dramatically increases the odds of new product and company success, while reducing the need for upfront cash and eliminating wasted time, energy money and effort. (P. 84).

Before detailing the steps of the method, it is important to know that it will allow you to organize the search of the business model by fine-tuning the idea and vision as well as help you find the answers to questions about how to make that business model repeatable and scalable (Blank and Dorf, 2013).

What Blank and Dorf do not mention is how long the validation process takes. In many cases, it took from 6 months to 3 years. However, this delay is not always attributed to a poor application of the methodology, but rather to the creative essence of the process. It is essential that the startup team, or at least its CEO (chief executive officer), has soft skills (flexibility and tenacity at the same time), since these skills will allow them to stay in the iterative process which is full of uncertainty.

Customer Development emerges as an agile method of product development, which is opposed to the traditional model of introducing new products. Blank and Dorf (2013) argue that the latter is useful for companies that already operate, know their customers, have a defined market and, therefore, can anticipate the characteristics of the product. However, they explain that in a startup...

> A scant few fit these criteria. Few even know who their customers are. Yet many persist in using the new-product introduction model not only to manage product development but as a roadmap for finding customers and setting the timing for the startup's sales, launch and revenue plans. (Blank and Dorf, 2013, p. 94).

This differentiation led them to write about the *nine deadly sins of the new product introduction model* that we suggest you read in order to understand the flaws that can be made by launching the product too early. Here is the list of the nine sins for you to deepen your reading:

The nine deadly sins of the new product introduction model

1. Assuming *"I know what the customer wants"*.
2. The "I know what features the product has to have" flaw.
3. Focus on launch date.
4. Emphasis on execution instead of hypotheses, testing, learning and iteration.
5. Traditional business plans presume no trial and no error.
6. Confusing traditional job titles with what needs to be done in a startup.
7. Sales and Marketing execute to a plan.
8. Presumption of success leads to premature scaling.
9. Management by crisis ("put out fires") leads to death spiral. (Blank and Dorf, 2013, pp. 107-139)

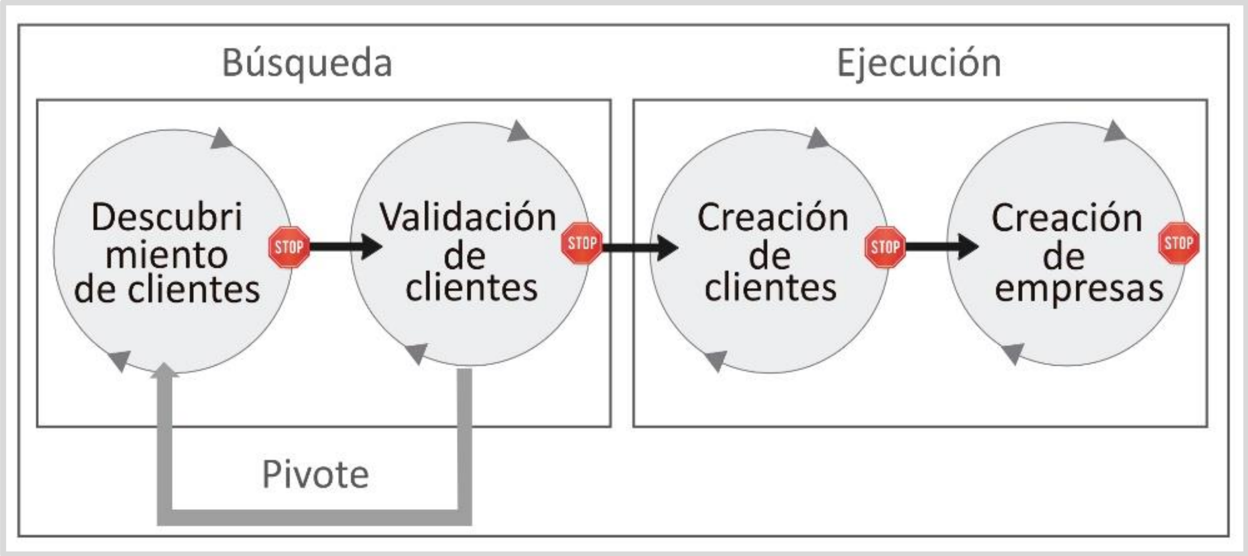
3.1.1 The Four Iterative Steps of the Method

Convinced that startups lack systematicity when it comes to testing their hypotheses, Blank and Dorf (2013) proposed a customer development process based on four steps that are repeated, iteratively, until a successful proposal is achieved. The aim of this method, which tests the business model, is that entrepreneurs learn how to find the best option before it is too late by putting fewer resources at risk.

Alberto Peralta, in the preface of the aforementioned *The Startup Owner's Manual*, states that customer development "accelerates learning, reduces initial investment and, perhaps most importantly, helps startups and new businesses minimize risk and time" (as quoted in Blank, and Dorf, 2013, p. 26), because it promotes customer participation—the most important factor in the project—when identifying what works and what does not from day one.

Figure 1 shows the steps of customer development, the first two corresponding to a business model search phase, while the last two are linked to execution, once the previous steps have been tested. Although each part of the model will be tested throughout the program to accumulate learning and experience, in this course, we will concentrate on the search phases.

Figure 1. Process of the customer development method



Source: Blank and Dorf, 2013, p. 150.

The English translation of this image is below.

Búsqueda	Search
Ejecución	Execution
Descubrimiento de clientes	Customer discovery
Validación de clientes	Customer validation
Creación de clientes	Customer creation
Creación de empresas	Company-building
Pivote	Pivot

As it can be seen in the graph, each step represents a circular path that involves going through it several times, reaching the beginning and starting again, in order to increase learning and obtain new discoveries. The value of iteration in the model is that entrepreneurs capitalize on learning from the mistakes they will make.

In order to achieve this objective, each of these stages follows steps which are similar to the Deming circle.

Figure 2. Continuous improvement cycle

Source: [Untitled image about the continuous improvement cycle]. (n.d.). Retrieved from https://goo.gl/LAR1qc

The English translation of this image is below.

CICLO DE MEJORA CONTINUA	CONTINUOUS IMPROVEMENT CYCLE
PLANEAR	PLAN
Establecer objetivos y procesos para obtener los resultados de conformidad con los requisitos del cliente y las políticas de la organización.	Establish objectives and processes to obtain results in accordance with customer requirements and organizational policies.
HACER	DO
Implementar procesos para alcanzar los objetivos.	Implement processes to achieve the objectives.
VERIFICAR	CHECK
Medir el desempeño de los procesos, de acuerdo a los objetivos perseguidos.	Measure the performance of the processes, according to the objectives pursued.
ACTUAR	ACT
Tomar acciones de mejora.	Take improvement measures.

The concepts of validation, iteration and pivoting are based on the fact that they are products of learning, typical of the measure and reformulate steps in the PDCA cycle. Therefore, we have to be aware that if we go out there without a good design of a validation test, it is unlikely that we will learn and we may run the risk of making iterations or pivots not based on evidence.

In conclusion, it is extremely important to document the entire process and collect as much information and data as possible, since this will allow us to retrace our steps and capitalize on all possible evidence-based learning.

Step 1: Customer Discovery

The vision of the founders is the main basis of the start-up. In this sense, the method proposes to start its process by translating the vision that entrepreneurs have about each part of the business model into hypotheses. These should be contrasted with real clients, in the street, from the design of experiments that allow us to obtain comments, critics or other points of view.

Once the experiments have been carried out, the business model will surely undergo changes, adjustments or pivots as a consequence of having listened to the needs and problems of the clients. However, Blank and Dorf (2013) state that we have to pay attention to the original vision of the product and the initial specifications it had, so as not to alter them just based on the results of interviews or discussion groups. They emphasize this so that the vision of the founders is not distorted by testing their hypotheses. The authors express it this way:

> The founders of a startup define the product vision and then use customer discovery to find customers and a market for that vision. (Read that last sentence again. The initial set of product specifications come from the founders' vision, not the sum of a set of focus groups.) (Blank, and Dorf 2013, p. 156).

From the feedback of clients and users and, as a whole, from their own vision, the entrepreneurs—founders of the business—define the characteristics of the product or service and of the business model.

On the other hand, two internal phases are proposed within this step. The first one consists of collecting clients' opinions, their perception about the problem and the possible solution, where they apply many of the tools mentioned in the first course. While the second step seeks to test that solution through a minimum viable product (MVP), which has to basically meet the customer's requirements. The objective of MVP is to see if the business model satisfies the needs and solves problems of the customers, and how it does that.

Step 2: Customer Validation

After having pivoted as many times as necessary to discover the customers, we start to test the growth capacity of the startup, that is to say, we start the tests to corroborate if that business model can become repeatable (whose sales are the result of the company's effort and not of its manager or employees selling to friends) and scalable (with constantly increasing sales).

The validations we carry out at this step seek quantitative results and are more demanding because they involve greater rigour and dimensions. At this stage, the tests are linked to the product, customer acquisition, pricing and channel (Blank, and Dorf, 2013). What is interesting about this point is the possibility of accounting for the impact of each resource that is invested.

In order to prove that the business model works, Blank (2013) states that it is time to try to sell the product to the first customers even if it is an improved MVP. This will allow us to know if there is a purchase intention that can also be measured. Likewise, the sales plan starts being developed. This plan will be used later on once the commercial and marketing areas are available.

It is important to be able to quantify the problem solution fit, as well as the product market fit, integrating the variables of attraction, conversion, retention and loyalty. As a motivating aspect for the reader, we bring forward the mathematical expressions that will be developed in detail later on.

Attraction = (E / Bm - Gnc) / Clead.

Conversion = Tcl * Tcu.

Retention = Ci<6 – B.

Loyalty = Ci>6.

Problem Solution Fit = A * C.

Problem Market Fit = R + F.

Sales = (PSF + PMF) * Tm.

With this, we want to make it perfectly clear that all iteration and pivot decisions come from a quantitative analysis.

In summary, these first two stages are useful to identify, validate and test the business model. In Blank and Dorf's words:

> Completing these first two steps verifies the product's core features, the market's existence, locates customers, tests the product's perceived value and demand, identifies the economic buyer (the person who writes the check to buy the product), establishes pricing and channel strategies, and checks out the proposed sales cycle and process. (2013, p. 164).

Once the iterations in these two steps are completed, it is possible to move on to other phases of the client's development that, as we said before, are related to the execution cycle, a topic that will not be developed in this course, but that we briefly describe below for your knowledge.

Step 3: Customer Creation

Once the startup has gotten to know its client and has reached the problem-solution fit, it begins to accelerate its evolution and, for that reason, begins to spend a lot of money on demand generation and on driving it to the sales channel. Therefore, the investment in marketing necessarily increases to generate sales, create teams and acquire customers and, in view of this, Blank (2013) suggests being careful with cash.

It is important to emphasize that, to Blank and Dorf (2013), customer creation varies by startup type:

- Some startups enter existing markets, well-defined by their competitors.
- Others create new markets where no product or competitor exist.
- And others attempt a hybrid by creating a niche or segmenting again an existing market as a low cost entrant. (Blank and Dorf, 2013, pp. 169-170).

Step 4: Company-Building

In this step, the temporary organization that worked on the search for a proven business model acquires and elaborates formal processes and also divides its structure into specialized departments.

In this steps, the structure is often defined according to the profile of the entrepreneurs. There are people who are very good at discovering, creating and working under extreme uncertainty in the early stages of the process, but they are not so good at performing well in more controlled environments nor are they good at executing, through management, the business models that are already proven and require other types of skills and order. That is why sometimes, in this step, the founders or their investors decide to hire people specialized in operations or managers with experience in leading companies to work as the head of the company. Hence, the founders end up placing themselves in other work functions or positions—in some cases they create new companies and other times they enjoy the success of their companies. Whatever the option, it is a hard stage and the decision is critical to the continuity and success of the company.

To summarize, we share the 14 rules that make up the Customer Development Manifesto listed in Blank and Dorf's book (2013):

Rule No. 1: There are no facts inside an office, so you have to go out there.
Rule No. 2: Pair customer development with agile development.
Rule No. 3: Failure is an integral part of search.
Rule No. 4: Make continuous iterations and pivots.
Rule No. 5: No business plan survives the first contact with customers, so use a Business Model Canvas.
Rule No. 6: Design experiments and test to validate your hypotheses.
Rule No. 7: Choose the market type. It changes everything.
Rule No. 8: Startup metrics differ from those in existing companies.
Rule No. 9: Make decisions quickly, reduce times and increase speed and tempo.
Rule No. 10: We are talking about passion.
Rule No. 11: Startup job titles are very different from the ones in a large company.
Rule No. 12: Preserve all cash until needed. Then spend.
Rule No. 13: Communicate and share learning.
Rule No. 14: Customer development success begins with believing it. (Blank and Dorf, 2013, pp. 173-226).

3.1.2 “Observe” A Day in The Life of the Customer

It is a frequently used tool that we will use together with its complement to *imagine a day in the life of the customer*, which was already mentioned in the previous reading, in order to confirm if we really know our client. Together with these tools, we can use the customer archetype and the empathy map.

First you imagine, then you observe and collect information and as result you get the empathy map and the customer archetype.

Steve Blank (2013a) argues that the entrepreneur should carry out such thorough research of the client so that, after the various interviews conducted at the discovery stage, the entrepreneur should be able to describe—Blank says: “Draw on a board” (2013a, https://goo.gl/HyYJ2E)—what the client does (tasks, relationships, pains, etc.) from the time they wake up until they go to sleep.

In this sense, you do not need to describe the activities that you carry out according to the product that you offer the client or the problem or need that you have identified, but you have to take into consideration all the tasks that are part of the client’s daily life such as reading the newspaper, in what device they do it, what car they drive, what they do for entertainment, how their family is composed, how they interact with it, what other members of their family work, etc.

To do this work, we share the template (Figure 3) as a guide for you and, followed by this, an Excel spreadsheet (Table 1).

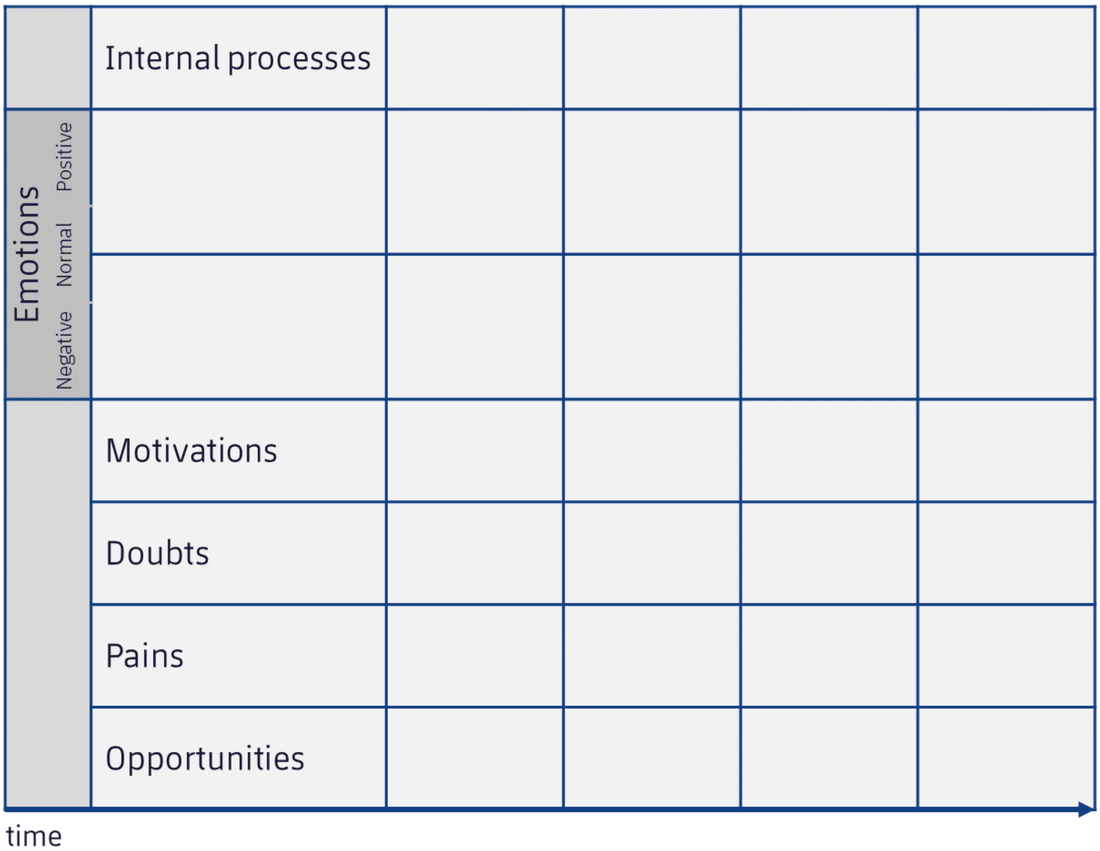
Figure 3. Template: Observe a day in the life of the customer

DESCRIBE CUSTOMER N°1

First name, last name, sex. How does he look physically?
How does he dress?
What is his job? Does he have a family? Where does he live?

PAIN SPOTS

MAIN MOTIVATION



Source: own elaboration.

Table 1. Example of a table for completing the tool: Observe a day in the life of the customer

A day in the life of the customer (observe)					
Customer archetype	Customer 1	Customer 2	Customer 3	Customer 4	Customer 5
Name					
Age					
Income					
Gender					
Demographic data					
Degree/job					
Role (in their job)					
Social class					
Facebook status					
Observation of the client while they perform "TASKS"	Customer 1	Customer 2	Customer 3	Customer 4	Customer 5
What they THINK and FEEL					
What they HEAR					
What they SEE					
The RESULTS they get. What they SAY and DO					

Source: own elaboration.

From the video on the experience shared by Blank (2013b), we highlight the following useful recommendations so as not to lose sight of them when conducting interviews with potential clients:

- What do you look for with customer discovery? Draw the day-to-day life of each type of client, based on conversations with them.
- The objective of the interview is to *learn from the clients* and, therefore, it is important to listen to them and avoid making the following typical mistakes:

  - Thinking you know the problem.
  - Thinking you know the solution.
  - Thinking you know the characteristic the client is looking for.
  - Not asking for opinions.
  - Not validating if what you think or believe is correct. That is, not validating your hypotheses.

- Talk to at least 10 to 15 potential clients per week, since you do not need statistical data but information, feedback.

- Finally, leave your pitch behind and avoid...

    - Bringing a presentation of your solution.
    - Introducing yourself and explaining your company.
    - Exhibiting your products or services.

When doing this exercise, we recommend you to tell the people you have contacted that you are researching to develop a new project and that, before telling them about it, you want to get to know them better, ask them questions, and understand their problems better.

On many occasions, the startup team underestimates this tool, which is understandable because it seems invasive at first. The important thing about this tool is that it seeks to observe and record as many details as possible, in an orderly manner, so as to allow for later analysis. Otherwise, the only thing that can confirm the entrepreneurs' hypotheses are their own assumptions, what remained in their memory, and not the empirical information extracted from reality, which increases the risk to the startup.

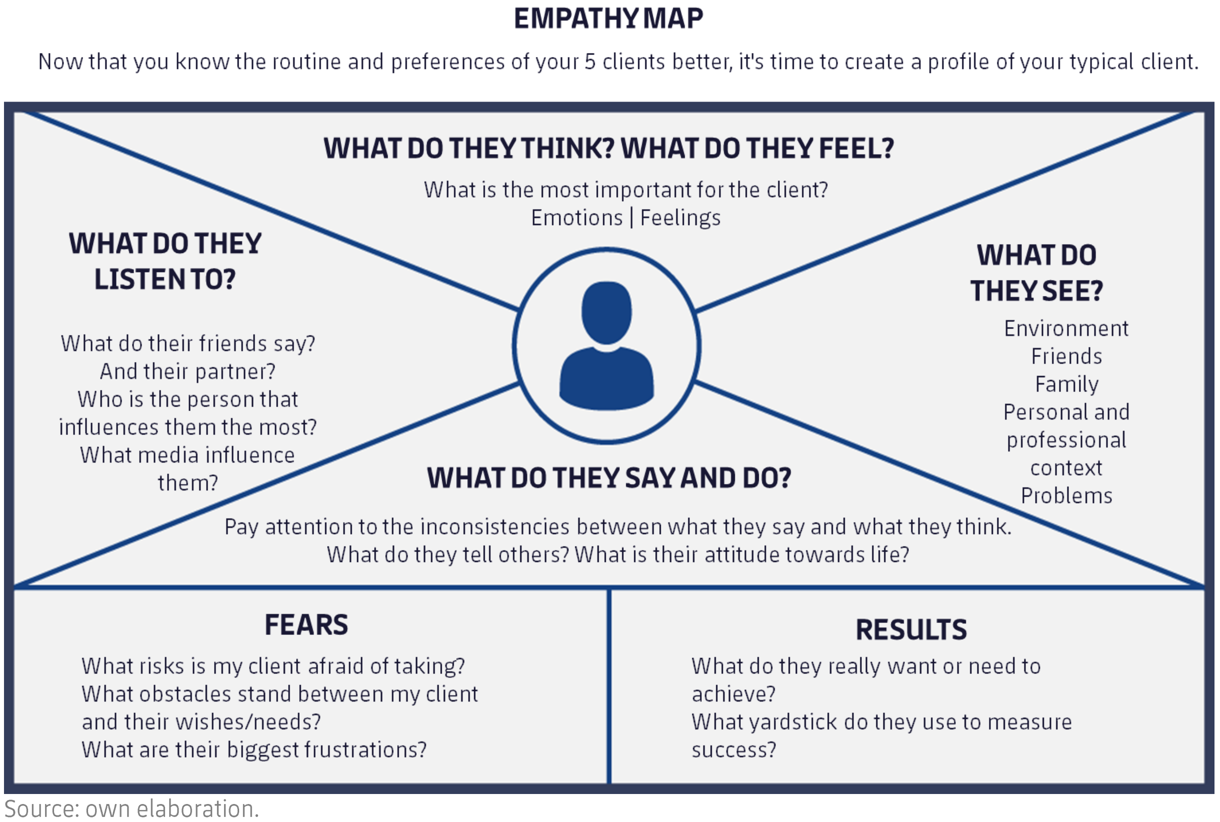
Unit 3.2 Concept of Customer Archetype and Empathy Map

3.2.1 Customer Empathy Map

Once we have imagined and observed different clients, the information collected can be used in the empathy map to complement the customer archetype that will be mentioned later.

This tool allows us to position ourselves in the place of our potential clients, since, as we have stated on several occasions, the entrepreneur has to consider whether to build a product or service, knowing that this depends on the clients' needs as well as the acquisitions they are willing to make to satisfy these needs. This is why putting yourself in the clients' shoes is the best way to understand them. This does not mean that the work is done and we should not go out there to validate and talk to customers, but quite the opposite. This tool will enhance such activity, since it allows to empathize even more with customers.

Figure 4. Empathy map



Source: own elaboration.

Once the scheme has been drawn, we will start by identifying the clients we are going to empathize with. We must describe the clients in detail, give them a name, surname, age, physical characteristics, hobbies, work or professional activity, family, friends, build a complete context of them.

Once this section is finished, we ask ourselves the following questions as we go through the map:

- What do these clients think? What do they feel? Describe what their thoughts and feelings are on a daily basis regarding their professional and personal activity and development, regarding their context and the problem to be solved.
- What do they see? Referring to their level of consciousness: if they are aware of what is going on around them, what do they ignore?
- What do they hear? It is very important to identify which conversations our clients are in. Perhaps they can be entangled in a problem from which they cannot get out and we have the solution; or, in fact, it can be the case that their private conversations do not allow them to identify the problems in front of them. We have to pay a lot of attention so that, at a later stage, when we talk to the clients, we ask them what they think, feels and listens to.
- What do they say and do? We analyze whether they are people with integrity or coherence, that is, do they do what they say and say what they do? In this instance we want to find coherence between what our clients say and do, in relation to the problem we are raising. It may be that they express having a problem, but they do nothing to solve it, or it may be the case that they already have a home-made solution, but they don't share it. It is very important to talk about this in the conversation with the client.
- At the end, there is a table with effort and results. In the results' box, we have to imagine what it means for our clients to have achieved success or solved a problem, what desires they have around this and other problems. How would they like things to be? What obstacles do they see on the road to success? What do they hope to achieve as a result in their lives? In the effort's box, we have to place what fears our clients have, what they feel about failure, what they fear about solving the problem or implementing new solutions, what obstacles they see in the solution of their problems, what frustrate they in their daily lives.

In this way, once we have completed the table, we will have a broader picture of our potential clients, by knowing them deeply.

A strategy that works in practice is to make it explicit from the beginning that you want to test your idea and get feedback, and under no circumstances should you sell or pretend that you do it or force them to use our product or service. There are times when we lose sight of the fact that at this stage we are here to learn, not to sell.

3.2.2 Customer archetype

When talking about the customer archetype, we refer to the concept raised by Steve Blank (2013c) in his client development method that serves to know the clients and understand, in a comprehensive way, their behavior, needs, problems and motivations.

After you have had a deep conversation with your clients and have validated some of your ideas about them, the author proposes defining archetypes that allow you to typify them under different common patterns, that is, defining the personality of the users of your product.

When we say *after you have had a conversation*, we explicitly refer to having observed in detail and recorded every pain or satisfaction, fears, sensations, etc. that the clients may have experienced when we applied the “a day in the life of the customer” tool.

Doing a survey is not talking, it is not observing, because surveys—which are generally closed—presuppose that we know all the variables and they can lead us to make mistakes. It is important to remember that we are always looking for information that helps us refute or validate hypotheses.

But how to define an archetype that is representative of the client? Blank (2013c) states that, in order to achieve this, it is necessary to combine everything that is known about your most typical clients into one or more complete profiles, assuming that there is the possibility of creating several archetypes, since not all clients will look like this average.

The methodology consists of choosing a specific image (photo) of the typical client, assigning them a name and describing their demographic characteristics: sex, age, location, social class, education, job, position, etc. You have to also be able to answer what their buying behavior is like, where they buy, how much money they have to buy, what matters to them, what motivates them, who influences them and who they influence, and you should add all the characteristics that you think your consumer has.

Figure 5. Customer archetype (image)

Source: Martin, 2015, retrieved from https://goo.gl/GdCiQL

The English translation of this image is below.

IDA ARQUETIPOS	**IDA ARCHETYPES**
JOVEN ESTUDIANTE	**YOUNG STUDENT**
Exigente y hábil con la tecnología Móvil por excelencia Fidelización temprana	Demanding and skillful with technology Mobile par excellence Early loyalty
Luisa Mena 24 AÑOS, soltera Estudiante de Leyes en Concepción. Recientemente instalada en Santiago para hacer su práctica laboral.	**Luisa Mena** 24 YEARS old, single Law student in Concepción. She has recently moved to Santiago to do her internship.
Contexto Estudiante universitaria con intereses en el ámbito comercial. Necesita estar informada por estudia, y práctica laboral. Satisfecho con los contenidos, es menos exigente en relación a la profundidad de la información.	**Context** University student interested in the commercial field. She needs to be informed about study, and work practice. She is satisfied with the contents, she is less demanding in relation to the depth of information.
Uso de TI Hábil con tecnología, necesita estar siempre conectado.	**Use of IT** Skilled with technology, she needs to be always connected.

Su modo de acceso contempla mayoritariamente las plataformas móviles, sino usa un laptop. Sigue y participa en RRSS.	Her access mode contemplates mostly mobile platforms, otherwise she uses a laptop. She follows and participates in social network.
Motivaciones y metas Entender el contexto nacional financiero. Mantenerse actualizado para conversar con sus profesores y entregar trabajos en buen nivel. Posicionarse entre sus pares en el rubro en el que estudia y espera trabajar.	**Motivations and goals** To understand the national financial context. To keep up to date so as to talk to her professors and turn in outstanding work. To position herself among her peers in the field in which she studies and expects to work.
Frustraciones y obstáculos Su nueva vida en Santiago ha restringido su acceso a la radio y la tele como medios de información. Adicionalmente, anticipa que cada vez tendrá menos tiempo libre para informarse. Desearía usar su tiempo de transporte para esto. En su condición de estudiante, no le es fácil suscribirse a medios pagos.	Frustrations and obstacles Her new life in Santiago has restricted her access to radio and television as a means of information. Additionally, she anticipates that she will have less and less free time to inform herself. She would like to use her commute time for this. As a student, it is not easy for her to subscribe to paid media.
Observaciones Representa un nicho poco explorado hasta ahora. Potencial usuario de aplicaciones móviles. Corresponde a un caso de fidelización temprana que conlleva a la suscripción y promoción de diario entre sus pares.	**Comments** She represents a little explored so far. Potential user of mobile applications. She corresponds to a case of early loyalty that leads to the subscription and promotion of newspaper among her peers.

The purpose is that, once all these characteristics are defined, you, together with your team, know that this is the person for whom you are developing a product.

The archetypes are very helpful in knowing the customers, the value proposition, the revenue and some of the pricing tactics.

The author suggests interviewing people with similar characteristics to your potential clients in order to understand who they are, their activities and their way of reacting and relating with others in their everyday lives. Start with a series of hypotheses, leave the office and perfect the archetype progressively.

In order to elaborate the archetypes, you have to collect demographic and behavioral information about your customer. Beside these options, Blank and Dorf add other suggestions such as "looking for studies, news articles and reports about your target consumers, as well as study the options used by the competition" (2013, p. 324). This not only helps to define the archetype, but also to update it as you learn more about the client over time.

Therefore, the aim of this work is to allow you and your team to get an idea of the person who will buy or use your product, to visualize it. As we have said before, you have to know so much about your client that you can describe a whole day in their life.

This knowledge will also facilitate, later on, the development of customer acquisition strategies.

It is important to keep in mind that each customer archetype can define different value propositions and that, in the course of the validation tests, it is highly probable that our target customer type will change, without changing our vision of our product or service.

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