

Three Levels of Discovery

Presentations Notes

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<p>1: Three Levels of Discovery</p>	<p>Everyone in the startup community seems to agree on the importance of customer discovery. There are many paths to determine what customers want and need, what they will pay for, and from whom they will buy it. However, what becomes very apparent is that there are no shortcuts to customer discovery. Unfortunately, all too often, the apparent need becomes obvious at the company's funeral!</p> <p>The usually non-spoken, ego-driven sense that many entrepreneurs have is they know what the customer wants – better than the customer! That statement may be true for breakthrough products or technology – sometimes and if one waits long enough. Technical founders often fall into the trap of not having the time to “waste” making customer calls; they are too busy creating their masterpiece!</p> <p>The purpose of these negative comments is to try to make entrepreneurs aware of the importance of investing in a rigorous discovery process. It is, without a doubt, the most critical aspect of starting a business.</p> <p>Although in slide presentation form, this material should be considered a course consumed as the entrepreneur moves through their journey. It might be a good idea to review the entire presentation to get a feel for what comes next and then go back and focus on the issues as they are presented sequentially. Have patience and take the time to use it!</p>
<p>2: The Foundation for Your Business</p>	<p>Once an entrepreneur has an idea in their head, the natural tendency is to think deeper and begin to visualize more details about it and the obvious success it will have. They are confident others will quickly understand its value. This is all part of the internal validation process. There is nothing wrong with this approach, and is required to initially “put meat on the bones” to describe it to others and, hopefully, gain their perspective and, hopefully, their concurrence. This concurrence can be summarized in two words: EXTERNAL VALIDATION.</p> <p>This is the essence of Customer Discovery. The process IS the foundation for the company and must be the first step in the journey to success. Not completing this activity will almost certainly lead to failure or, at least, traveling down the wrong path.</p> <p>This is a blunt statement, but it has been proven to be true countless times. Clearly, many more steps and milestones along the journey represent other challenges. However, none of them matter without the firm foundation that customer discovery will provide.</p> <p>I highly recommend that entrepreneurs not even consider the other steps until they have nailed customer discovery.</p>

<p>3: Where Did Your Idea Come From</p>	<p>Ideas seem to fall into two major buckets: A market looking for a solution or a solution looking for a market. The winning combination is, of course, meeting both. Those with intimate market knowledge may have a major advantage in identifying current problems impacting a company's operation. In many cases, they may have great solutions in mind but are unable to implement them or get the attention of others who can. Also, folklore and the resistance to change or the feeling that the problem has always been present and will always be present can be inertia that is hard to overcome. Finally, the problem may be the result of some underlying more basic issue that must be addressed first.</p> <p>The other category involves having an invention or solution, commonly based on a core technology. It is easy for an entrepreneur to become infatuated with the technology, pursue it to perfection, and then attempt to find a place for it. The laser is a good example. It was invented in 1958 however, it was thought of as a useful demonstration of optics. It was years before practical uses were identified. Today, it is used in applications ranging from DVD players to advanced space weapons.</p> <p>The challenge is bringing the market and the product together in a meaningful way. Many argue that the lack of product-market fit is the number one reason for startup failures. Clearly, if the product does not work or the market is not real, it cannot lead to success.</p>
<p>4: Product-Market Fit</p>	<p>The challenge is to find the right product-market fit as soon as possible or to pivot or make course corrections while time and money are still available.</p> <p>The entrepreneur can only speculate about hitting the sweet spot of proper product-market fit. It can only be factually determined by paying customers. A methodical approach during Customer Discovery will provide the external validation and set the stage for the company to proceed on the journey, ultimately ending with customers voting with their wallets!</p> <p>Offering the “best” product-market fit is the key to competing with others. However, the “best” needs to be determined by customers. It is based on the value they perceive in selecting you versus other uses of their available funds. Remember, you are always competing for a prospect’s attention and wallet.</p>
<p>5: Successful Product-Market Fit</p>	<p>You can only work hard and do your best to develop a product-market fit. However, customers, for their own reasons, who buy and continue to use your offering is the only test that matters. Obviously, the offering must be “right,” and it must appeal to the “right” market. You need to focus on both.</p> <p>Many entrepreneurs attempt to cast a wide net, hoping to catch any available customers with their “universal” product. That strategy almost universally fails. Instead, target as narrow a market as possible to prove your validity. Once successful, expand from that proven record of success.</p> <p>It is usually best to focus on A market instead of THE market. Remember, there is a reason for the pre-season. It is a time to test and verify. Select prospects within that market that:</p> <ul style="list-style-type: none"> * You can easily reach and support.

	<ul style="list-style-type: none"> * You can serve with your initial capabilities. * Are willing to work with you, especially when (not if) you stumble. <p>Selecting the initial “right” market is equally important as having the “right” product.</p>
6: Your Idea Scope	<p>Even if your idea satisfies a need that resonates with prospects, you have to take a hard look to determine if the idea can transition into a sustainable business. Often, unfortunately, it can’t. There are many potential roadblocks to success, from costs to distribution to competition, that can derail the best ideas. However, one quick, initial acid test can be taken to help answer the sustainable business question. Is the idea a feature, a product, or the launching pad for a business?</p> <p>A feature that appears missing from an existing solution may be just around the corner from the existing supplier. If they view you as a viable competitor, they may decide to give it away or price it well below your price. An example that most of us wish we had is the ability to disable an email recipient from being able to “reply all” to an email. That feature would help stop the creation of an unsynchronized email chain that seems to expand without bound.</p> <p>Your idea may involve a unique product, but what is next? Do you have something else to sell to your existing customers? Sales barriers are significantly less high after establishing a good reputation with a customer. Imagine a company that has developed a unique tire stem. Although the total market is huge, how will the company work its way through the multiple tire suppliers, wholesales, and retailers? Then, what else do they have to sell?</p> <p>Think about some of the largest and greatest companies and how they, over time, have dramatically expanded what they have to sell to existing customers and how they can leverage that success and expand into new markets.</p>
7: Your Idea: Better or New?	<p>I often say technology does not sell. It is the application of technology that counts. Think of the remarkable innovations that have occurred and are occurring every day around the world. The potential of quantum computing is mind-boggling and will impact virtually every aspect of our lives. Think of what the invention of the transistor and then the microprocessor has done to our lives. However, just like the laser, the core technologies often take years or even decades to become commonplace. Often, even when the technologies become available as part of a commercial product, explaining it to the market can take years and gain acceptance.</p> <p>The notion that being the first, referred to as the First Mover Advantage, has proven itself not to be an advantage at all. Rarely does the time and effort required to establish a beachhead market pay off. The likely winners are the second, third, or fourth entry into a market, able to leverage those who have blazed a trail before them.</p> <p>Think of some of the mega-companies today. None were the first to market. The Apple iPhone was predated by thirteen years by IBM’s Simon smartphone. There were electric cars on the road before 1900 when Tesla was an inventor and not a car company. Cellular architecture was first proposed in 1947 by Bell Labs. Many mobile phone services were available worldwide long before cellular’s commercial introduction in Japan in 1979.</p>

	<p>Artificial Intelligence was first proposed in 1956 in the “Dartmouth Project” but only recently was the hardware available to make it a practical reality.</p> <p>The key to all these companies' success is that they were dramatically better as viewed by the customer. To be fair, their distinctive advantage was often based on technological advances, but understanding customers' needs was the driving force behind their success.</p> <p>The customer discovery process is the key to identifying those needs.</p>
8: The Trap	<p>When I initially talk with an entrepreneur, I use a simple two-part test to determine if I want to spend time with them. First, I try to determine if they are a good listener and willing to consider what I am saying. They certainly do not have to agree with me, but they do have to listen. If they play the “yes-but” game with me, I walk away.</p> <p>Second, if they say: “I know exactly what to do; all I need is the money to do it.” I run away!</p> <p>I ask them about their customer discovery activities if they pass these two tests. If I get a blank look or hear comments like those shown, my answer is clear.</p> <p>Like most others, I cannot predict success, but based on the three items listed above, I am very good at predicting failure – unfortunately!</p>
9: The Common Problem: Talking AT Customers	<p>I often hear entrepreneurs say they have “talked” to customers, and they have agreed with the entrepreneur’s idea. In actuality, they have talked AT customers. With their deep passion and belief, it is easy for an entrepreneur to wear down a prospect who, for the sake of ending the conversation, “agrees.”</p> <p>When I talk to entrepreneurs, I listen for two things: “Yes, but” and “Let me explain.” Both indicate the entrepreneur's focus on selling their idea rather than listening for honest feedback.</p> <p>If they receive resistance, the tendency is to rationalize why the prospect was wrong~</p>
10: “Five Common” Discovery Approaches	<p>It is easy to fall into the “wishful thinking” approach to customer discovery. Part of that process is to rationalize the approaches. With all of them, it is easy for an entrepreneur to “check the box” and “think” they have obtained validation of their idea.</p>
11: “Five Common” Misstep Responses	<p>What did they do wrong? They rationalized their approaches subconsciously, guaranteeing positive results.</p>

<p>12: Thinking Doesn't Matter...</p>	<p>Once an idea pops into the head of an entrepreneur, they start dreaming about the business. In some cases, entrepreneurs start dreaming about starting a business before they even have an idea. Once they move past those original thoughts and decide to do more than dream, they start on a journey that will, hopefully, take them through nine business stages on their way to success.</p> <p>The first stage is "Thinking About the Business." This stage involves more thought about their idea, putting "meat on the bones." Instead of focusing on how successful and rich they will become, they begin thinking about some details. They may start to share their idea with friends and relatives.</p> <p>At some point, they decide to think about what it will take to make their dream a reality, and they enter Stage Two: Committed to Starting a Business. They begin to work on the idea in the evenings and on weekends. As the idea crystalizes into actionable items, they plunge and enter Stage Three: Working Full-Time in the Business.</p> <p>At this point, most of the entrepreneur's activities involve thinking about the details of the business. The details are based on their assumptions and projections about all aspects of the business. They may think they know, but in reality, they have no outside verification of any of their many assumptions. The glass is neither half-full or half-empty. Instead, the glass is overflowing with opportunity; easily within their grasp.</p>
<p>13: Common Statements</p>	<p>At this stage, the entrepreneur will likely make these and many more definitive statements. Unfortunately, they rarely add the "We think that" preface to their statements. Their faith in their idea is unquestionable in their minds. Once the statements include the "We think that" preface, the naivety of the statements becomes obvious.</p>
<p>14: Is it "Thinking," "Hoping," or "Wishing?"</p>	<p>Although unspoken, what they are really saying, without saying, is "We hope that" instead of "We think that." They are <i>wishing</i> their definitive statements are true.</p>
<p>15: Your Projections and Forecasts</p>	<p>This is a rather cynical statement but, unfortunately, very true. Forecasts must be based on hard evidence. Without it, it is better to forecast nothing. The forecasts do not necessarily involve numbers such as revenue, number of customers, or profitability. The forecasts are often much more basic such as obtaining prospect awareness, prospect willingness to listen, urgency, and priority. With less externally validated data, the forecasts will be more likely to be in error.</p>
<p>16: About Your Business</p>	<p>There are three fundamental questions every entrepreneur must consider. This is the first one. In the thinking and hoping stages, the statement is usually made with certainty. By adding the "We think" preface to the various parts of the statement adds a dose of reality to the situation.</p> <p>The obvious challenge is to verify each portion of the statement with facts. Forecasts and projections based on what you think are of little value.</p>

<p>17: The First of Three Questions to Answer</p>	<p>As you begin to socialize your idea, you will probably receive lots of positive encouragement from virtually everyone you talk to. Do not think of these comments as customer discovery or validation of your idea.</p> <p>Friends are focused on providing you with words of personal encouragement.</p> <p>Individuals within the business community may, consciously or unconsciously, encourage you to keep going, possibly to help them meet their goals. Based on their position or experience, you may inadvertently place too much weight on their opinions.</p> <p>Finally, there is a group that wants to stroke their egos by sharing with you and others what they know or think they know! Seldom will they look deep enough into what you intend to do and your chances of success to give you valid opinions.</p> <p>Of course, these generalizations are just that: generalizations. None of them have ill intent or are misleading you on purpose. It is better for you to accept their opinions and encouragement as well-meaning gestures and that is all. It is up to you and you alone to validate your business.</p> <p>All of these groups have one thing in common: They don't buy! Only potential customers who "vote with their wallet" count.</p>
<p>18: Who "Thinks" it is a Good Idea?</p>	<p>At the risk of over emphasizing the point, always keep in mind that you must provide recognizable value to customers vis-à-vis all of the other choices they have for their attention, time, and money. You can have a great offering, but the customer's sense of urgency and their priorities may simply not align with yours. Once you have identified your target customers, focus on what impediments could occur. Try to develop strategies and tactics to head them off before they occur. A simple test is to repeatedly answer the question: "What could prevent my customers from receiving value from my offering or what would they spend their time and money on instead?" It is not a full-proof question, but can help shape your discovery efforts.</p>
<p>19: Who "Counts"?</p>	<p>Think granularly; companies do not have problems; departments and individuals do. Understanding WHO has the problem and WHO is impacted by it is critical in obtaining meaningful feedback and understanding. Sometimes, the person WITH the problem is the same as the person IMPACTED by the problem. Sometimes not. When they are different, the determination of proper product-market fit becomes far more difficult. Many factors could be very different.</p> <p>A few examples of where the problem owner and those impacted are different are:</p> <ul style="list-style-type: none"> • H/R cannot find viable candidates, the workers where the shortages occur are asked to fill in. H/R may view this problem as a mere inconvenience while the workers suffer the consequences. • Manufacturing has quality issues, sales and customer service customer interaction is impacted. Manufacturing may have a long-term program to address quality while sales has to live with the customer's dissatisfaction daily. • Sales gives excessive discounts, companies profits decrease. Sales meets their goals while the CEO is fired! • Product development slips, sales are lost. Developers work hard, while sales rep lose commissions.

	<p>In each of these cases, there may be agreement on the problem but the urgency and interest in resolving the issue may be quite different.</p> <p>It is easy to fall into the trap of THINKING there is alignment in resolving the issue “for the good of the company,” but this may not be the case.</p>
20: Who IS the Prospect?	<p>The scientific method or process dates back to ancient Egypt and, perhaps, earlier. Entrepreneurs need to follow a similar track to move from thinking and hoping to knowing about their business proposition. The process is called Customer Discovery.</p> <p>The goal is simple:</p> <p>To determine if there is a proper product-market fit AS DETERMINED BY THE CUSTOMER, not the wishful thinking of the entrepreneur.</p>
21: Thinking versus Knowing	<p>The Customer Discovery process is analogous to the Scientific Method. It can be divided into three distinct phases. The result is the determination that your idea resonates enough with customers, and they decide to <i>buy from you now</i>. Only if they buy will you truly “know.”</p>
22: Customer Discovery	<p>It is important to establish a stake in the ground about customer discovery. It needs to start with defining what customer discovery is and what it is not. Searching for answers is the primary objective of the discovery process. Unfortunately, the process is often distorted with the subconscious goal of confirming a preconceived idea by discarding any inputs to the contrary. The old saying, “I have made up my mind, do not confuse me with facts” is often the playbook followed by entrepreneurs who are deeply wedded to their idea.</p>
23: Level Setting Definitions	<p>Previous slides discussed the tendency of entrepreneurs to attempt to justify and rationalize the feedback they receive from others to validate their ideas. These behaviors are the exact opposite of the approach taken with customer discovery.</p> <p>The first two phases of the customer discovery process are focused on understanding the problem or situation being addressed and then confirming those findings with prospects.</p>
24: When and What	<p>An entrepreneur needs to be willing to accept bad news during the discovery process. Some level of pivoting will likely be required as more direct feedback and insight is gained. It is tough to accept contrary opinions, but it is essential.</p> <p>It is easy to get trapped in what I call, the shopping cart syndrome. It involves changing the message until you find people to agree with your fundamental idea. It is a re-packaging exercise whose sole purpose is to get people to agree with you – being right or wrong is not important! A key indicator of this situation is when you fall into the trap of believing “they just didn’t get it!”</p> <p>The proverb “You can’t make a silk purse out of a sow’s ear” can be interpreted as you cannot make a bad idea into a good one by repackaging it.</p>

<p>25: Key Understanding</p>	<p>Sorry, there is no shortcut. You have to do your homework well before talking to prospects. If you don't, your lack of understanding will come through loud and clear when you talk to prospects. They are likely to give you lip service answers only. If they feel you are wasting their time, it is highly unlikely that they will listen to you again.</p> <p>Problem Discovery starts with homework.</p>
<p>26: Do Your Homework First</p>	<p>Most experts (I certainly am not one of them) combine "my" first two steps, Problem and Prospect" Discovery into one. I make the distinction between the two in order to help ensure the entrepreneur is truly focused on the problem and not how well their solution resolves it. Most entrepreneurs find it extremely difficult to make the distinction.</p> <p>Problem Discovery involves doing your homework first. Research the problem, checking any and all available sources. It may sound crazy, but talk to prospects last! The reason is simple, when you approach prospects, your knowledge and questions need to indicate to the prospect that you are not merely on a fishing expedition. Instead, you have some thoughts and assumptions that you need to verify. People are busy, so show them you have spent time and are knowledgeable about the subject.</p> <p>Force yourself to write down the questions and then write down answers based on what your research has suggested, NOT merely on what you think.</p> <p>Writing down both the questions and your answers forces you to slow down and thoroughly think. It sounds crazy, but we do not write down "lies," but we often say them in the form of generalizations.</p>
<p>27: The First Level of Discovery</p>	<p>Think of the problem discovery as a sequential activity of getting ready for game day when you are ready to talk to prospects. No team goes on the field without a game plan and an understanding of their opponent. In your case, it is an understanding of their problem as they see and experience it.</p>
<p>28: #2 Prospect Discovery Transition</p>	<p>Invariably, as you dig deeper into the problem, you will discover the alternatives or solutions customers are pursuing to address it. The tendency is to discount all of the alternatives, "knowing: what you WILL be providing is far superior. Of course, this may be true, but at this stage it is likely not! Only after you talk to prospects will you begin to develop an understanding of how and what they are doing to address their issues. During those discussions, and certainly before them, carefully and objectively develop an understanding of these alternatives. Think more broadly: it is not only a competitive analysis; it must also be an alternative analysis. It may involve a stopgap solution or doing nothing at all.</p> <p>Beware of what I call the "gonna factor." It involves comparing what you will do sometime when your offering is ready to what the alternatives are doing today. Always assume that your competitors are just as smart as you are and just as motivated to keep customers as you are to displace them. Existing alternatives have the major advantage of being on the inside, while you will be knocking at the door. You must be far more than incrementally better to displace them.</p>

29: Take a Temporary Detour...	Although listed as a detour in the Customer Discovery process, thinking about how you make money should be a primary focus throughout your journey – after all, isn't that what businesses are all about? Although high gross margins are great, many other factors must be considered. It starts with identifying both the buyer and the user, who may be the same or different; the cost of customer acquisition; the relative value customers will perceive from embracing your offering; and how you will support them. As you proceed through the various steps of discovery, it is likely that your initial thoughts about how you will make money and how much will change. Constantly test your hypothesis.
30: Another Detour...	<p>It should be obvious when the advice of “go out and talk to customers” should occur. To be taken seriously, you must demonstrate a deep understanding of the problem and validate that position with prospects.</p> <p>You will probably be busting at the seams to tell them about your revolutionary, one-of-a-kind, game-changer solution. Don't! First, get agreement on the problem being solved, and without saying a word to the prospect about your solution. Focus on what you are learning from the prospect and how it agrees or disagrees with your “homework” and your planned offering. If there isn't an almost exact fit, thank them for their time, leave, and regroup to fight another day. Do not be afraid to tell them you need to regroup. It shows them you took to heart what they said. Honesty works. It builds credibility. Imagine the response you will receive when you go back and say: “I listened to what you said, and we have made changes...”</p>
31: Second Level of Discovery	Be sure to position yourself as a fact-finder, not a sales rep. Today, few people want to spend time talking to a cold-calling sales rep. It is amazing, but positioning yourself correctly and asking for five minutes of their time results in lengthy, meaningful conversations. Most of us enjoy sharing our perspectives on issues – as long as they are not challenged, and certainly not if they are told they are wrong!
32: #2 Prospect Engagement	<p>An old sales adage is: “Stop selling when they say yes.” Although it is good advice for a sales rep, it is the wrong approach during customer discovery. Agreement on your view of the problem is a great first step, but you have to dig deeper. Do others in the organization agree? How does spending time and money on your solution stack up with other activities? Is this the right time to move forward?</p> <p>Listen to objections, remember them, and develop methods to head them off later when you actually start selling.</p>
33: Engagement Goals	<p>This paraphrased quote from Epictetus, a Greek philosopher, should be the mantra of anyone involved in customer discovery. For most, it is a very hard model to follow. Most entrepreneurs are busting at the seams to tell anyone and everyone about their novel, earth-changing idea. If someone offers anything short of totally understanding and agreement the almost instant defense mechanism appears – interrupt with a “yes, but” response.</p> <p>Think of the dual clocks used to track time in a chess match. Each person, sequentially, has time to plan and execute their next move. Contrary to a chess match in which each player has the same amount of time, your time to speak should be far less than the prospect's. Like in chess, alternate the microphone. Always be willing to cut your time short. As the age-old saying goes: “You do not learn by talking.”</p>

	<p>Usually, the “yes, but” defense starts immediately with the first sign of some contrarian thought. The rest of the comments made by “the adversary” are often never heard because the entrepreneur is focused on loading both barrels of their defensive response.</p> <p>We all fall into this trap. It is hard to avoid but must be avoided at all costs.</p>
34: Probing and Listening	<p>The simple Five Why’s technique, developed by the Founder of the Toyota Motor Company, has almost universal applicability. Anyone can apply the method, and it does not require specific expertise on the issue being discussed.</p> <p>So many times, for various reasons, people respond with a quick but often short and simplistic answer to a question. It might be convenient, but is hardly informative. An example that occurs every day on TV occurs when a Wall Street “expert” is asked about what happened to the market yesterday. They are likely to respond with a two-word answer such as “Profit Taking,” or “Market Adjustment,” or “Market Correction.” However, when asked about tomorrow, they may go on and on without saying anything concrete.</p> <p>During customer discovery, sincerely asking why and then carefully listening can provide remarkable insight.</p>
35: Use the “Five Why’s”	<p>This is a classic example from the Internet. It illustrates that the issue was with the owner not the vehicle!</p>
36: 5 Why’s Example	<p>This is an all-too-common problem with many companies today. Think about the statement that senior management has required us to cut costs. It doesn’t seem to make sense on the surface, but after the 5 Whys analysis, it does!</p>
37: 5 Why’s Example	<p>It is easy to determine when you have successfully completed the first two levels of the customer discovery process. It involves receiving positive confirmation that your homework was correct and that you are on the right track. Do not be surprised if you discover issues that you never thought of. That is why the process is called “Discovery” and not “Selling.” Regrouping with the newly discovered data occurs far more often than not.</p>
38: Prospect Discovery	<p>Put a stone in your shoe, tie a string around your finger, leave your phone at home, or do something else to constantly remind yourself that Prospect Discover is NOT about selling your idea or your offering. It is all about getting honest feedback and insight into the prospect’s problem and how you can successfully resolve it to their satisfaction.</p>
39: Prospect Discovery Singular Goal	<p>Be careful of abstract or unrealistic goals. There are many idealized situations that would be great if they could be solved. “IF” is a very big word! We have talked about the Could versus Should dilemma that entrepreneurs face. Prospects can emotionally fall into the same trap. “That problem should be solved.” But could it be solved?</p>

<p>40: Can the Problem REALLY be Solved?</p>	<p>Pivoting is not failing! In fact, it is just the opposite. It indicated that you have successfully realized that your plans were flawed. There is no glory going down with the ship! Change!</p> <p>Pivoting is very different than jumping. Moving from one “sure fire idea” to another is easy. Pivoting, however, involves careful planning and understanding what didn’t work and what will be different “next time.”</p> <p>The ultimate jumping scenario is what I call “Pogo Sticking.” If you have ever been on a Pogo Stick, you know how unstable it is. You bounce from one unstable state to another until you fall over or run out of gas. It is nothing more than a greatly efficient method of wasting time and energy.</p>
<p>41: With Prospect Feedback...</p>	<p>A critical part of the customer discovery process is understanding what happens if the problem goes unsolved. What are the consequences? In quality circles, this issue is referred to as the Cost of Non-Conformance. Those costs can involve many factors. However, they cannot be considered in terms of absolutes. What are the costs RELATIVE to other factors – is it worth the effort?</p> <p>One example that I experienced was the reaction that I received from a prospect regarding our solution that could reduce their losses. The response that I received was, “We budget for certain losses; they are built into our financial model. We can’t waste the time addressing it!” Clearly, they could address the issue but decided they shouldn’t.</p> <p>A typical example is the problem that savings will occur later, while the cost to realize those savings occurs now. Short-term financial pressures seem to be everywhere. Although short-sighted, many managers believe that if I spend money now and miss “my numbers,” I won’t be around to benefit from the savings!</p>
<p>42: Problem Consequences</p>	<p>The concept of Process Mapping is very old and has been quite effective. In a nutshell, it involves bringing people together and “mapping out” how an activity is performed. It requires a high degree of honesty and candid conversations. The map may be at odds with what is “supposed to happen” or what “SOP” requires. Once a map is developed and the reasons for the non-conformance or problems with the activity are documented, the next step is to define what should be done. Often, what is discovered is that a significant amount of duplication of effort or not understanding the role of individual steps that have caused inefficiencies.</p> <p>Rarely, does the proverbial “out-of-the-box” thinking take place. Those involved are often stuck with subconscious limits based on history. They are too close to the situation and have difficulty casting off the “we always did it this way.” Outsiders, as most entrepreneurs are, may not be burdened with historical biases. They may offer a novel approach but much to their dismay, it may fall on deaf ears. Why? Many of us, for various reasons, have a difficult time accepting change. Think about it: to accept something new, there may be unknown risks. Understanding the reluctance to discard the old and embrace the new is a major challenge. The more radical the new method is, the more reluctance will probably occur. It may take others a long time to “see the light.”</p>
<p>43: Problem Process Mapping</p>	<p>Without a doubt prospect feedback is the most important aspect of the entire customer discovery process. However, maintaining an open mind and carefully listening to what NOT is being said is important to develop objective conclusions.</p>

	<p>The Good News items listed are great news. However, the Bad News issues need to be addressed by asking some pointed questions. For example:</p> <ul style="list-style-type: none"> • How does this problem stack up compared to all of the other issues you face? Does it have enough priority for you to focus time, energy, and resources to resolve it now? • How would others in your organization answer that question? <p>These questions are intended to break out of the singular focus on the problem, and perhaps your solution, that you are discussing. It is all about understanding the urgency and importance of addressing the issue for them AND others in their organization.</p>
<p>44: The Prospect Focus Trap</p>	<p>It is critical to talk to prospects who, seemingly, do not have the problem you are addressing. Find out why. Their view may be a precursor to those with the problem now. Talking to them may also help you refine your message and, perhaps, restate the problem or even rethink it.</p> <p>You may be so close to the situation that you have a distorted view of the problem or your solution. The age-old idiom, Tempest in a teapot,” may be occurring. This situation is quite common for entrepreneurs who have a “great solution” and are desperately trying to find customers who have a problem they can address.</p>
<p>45: Prospect’s Without the Problem</p>	<p>We make compromises all the time. Short-term, quick solutions often win out over long-term better solutions. Rarely are decisions made in a vacuum. There are always other considerations to take into account. Your solution to the problem may fall into the “right thing to do in the long term,” but...</p> <p>One example, illustrates this point. A company had a method to significantly reduce a prospect’s losses that would result in lower insurance premiums. To implement the savings some operational changes were required. Although the company saw the long-term financial benefits they did not move forward. Their justification is that they budgeted for losses and insurance premiums in their business model, and the operational disruption “wasn’t worth it.”</p> <p>Could your solution “save pennies” while the prospect is worried about “dollars?”</p>
<p>46: A Band Aide may be OK</p>	<p>It should be obvious when the advice of “go out and talk to customers” should occur. To be taken seriously, you must demonstrate a deep understanding of the problem and validate that position with prospects.</p> <p>You will probably be busting at the seams to tell them about your revolutionary, one-of-kind, game-changer solution. Don’t! First, get agreement on the problem being solved, and without saying a word to the prospect, think about what you have learned and the applicability of your offering. If there isn’t an almost exact fit, thank them for their time, leave, and regroup to fight another day. Do not be afraid to tell them you need to regroup. It shows them you took to heart what they said. Honesty works. It builds credibility. Imagine the response you will receive when you go back and say: “I listened to what you said, and we have made changes...”</p>

	<p>It is easy to determine when you have successfully completed the first two levels of the customer discovery process. It involves receiving positive confirmation to the statement shown. This is the first of three fundamental questions that every entrepreneur needs to answer. The remaining two questions need to be answered when the third level of customer discovery is completed.</p>
47: First Two Levels of Discovery	<p>This is an easy question for entrepreneurs to “think” about in their dreaming stage. It seems obvious to them. However, getting prospects to agree is an entirely different matter, and this is the first indication of proper product-market fit.</p> <p>The key elements are:</p> <p><u>Solve it completely:</u> If the solution requires other changes, the prospect may never realize the benefits of your offering. Make sure you have a way of Solving, not merely Addressing the problem.</p> <p><u>Say it out loud:</u> A prospect’s nodding may indicate they are falling asleep or taking the easy way out. Ask them for verbal confirmation.</p> <p><u>Vis-a-Via others:</u> It is easy for you and a prospect to focus on your issue. However, later, in the context of their business, other issues may have a great need.</p> <p><u>Not later:</u> Test to ensure your urgency and the prospect’s urgency align. You may have made a valid case, but you may be number six on their priority list and only have the resources to do the top five.</p> <p><u>You, not others:</u> there are two parts to this factor. Do prospects see the value in what you are proposing and will pay for it? Second, will they pay you, or have you created the demand that the prospect will fill with someone else – perhaps an existing supplier?</p>
48: Winning Conclusion	<p>So, think of the eight parts of Question #1 as valves in a pipeline or switches in a circuit. All eight must be addressed before revenue flow occurs. It doesn’t matter if seven of them are totally resolved in your favor. One unresolved issue can significantly slow or stop the entire process.</p> <p>The other two questions also have multiple parts, all of which must be addressed.</p> <p>Further, these questions are not singular “check the box” issues. Unfortunately, once resolved, they can become unresolved. The longer the sales cycle is, the more time exists for opportunities for failure to creep in. Consider how a new competitor’s announcement, technology breakthrough, or even an unrelated external event, such as COVID 19, can dramatically change a business.</p>
49: Prospect Discovery Success	<p>The “pay” part of the question is the most significant part. It determines if you have a business! Of course, the prospect must see value in your offering AND prioritize it compared to the other potential uses of their resources. Few companies have a line item in their budget for “New stuff we haven’t thought about.” Instead, every dollar has been allocated for something by someone. Even if there is a non-descript line item, others will be positioning for its use. Simply stated, if you win, someone else who wants the same resource will lose. That person may be well outside your influence circle. Rest assured, they are there!</p>

	<p>Remember, a prospect will be paying you for only a portion of the cost they will incur. The cost in terms of resources and dollars incurred by purchasing your offering will also be considered by the prospect. The result is that there are many potential impediments to sales, which we will talk about later, and these need to be reflected in the financial model. I often share an axiom with entrepreneurs: “Revenue is always delayed, but expenses occur right on time!”</p>
<p>50: Business Case</p>	<p>Of course, you have to pay the bills and eat now. Clearly, you have to find a way to cover your costs until you, at least, reach cashflow breakeven operations. However, your business plan needs to have a long-term focus. What will the business look like when you have sufficient sales volumes to “anonymous” customers you have closed based on a scalable distribution and fulfillment plan. The plan must include all the costs incurred until you reach profitability.</p> <p>A trap that many entrepreneurs fall into is assuming their initial success projects long-term success. For example, you have received an order from a good friend, or the sale of cookies baked at home and delivered to your neighbors is profitable.</p> <p>Instead, during customer discovery, your goal should be to attract some Referenceable Customers that will provide you with the number one goal: “External Validation.”</p>
<p>51: Business Case: Long-Term Focus</p>	<p>“Are we there yet?” Seems to be the kid’s universal backseat question that they never seem tired of asking. We do not outgrow our impatience; we just do not verbalize it as often. Entrepreneurs, being naturally optimistic, do not plan on delays. It is in their nature to plan for success – quickly. Unfortunately, delays seem to be inevitable. They need to be considered in the development of a business plan and financial model. Many potential delays can be discovered during the discovery process by asking some simple questions. For example:</p> <ul style="list-style-type: none"> • Do purchases for offerings like ours have to be first budgeted? • What is your budget cycle? • After a purchase has been authorized, typically how long does it take for a purchase order to be issued? • Will we be required to apply for and be accepted into your Vendor Management System? How long does this typically take? • Will we need to us a contract for the purchase with legal reviews? • What is the overall purchase approval process and how long does it typically take? • Are there certain times of the year that procurements are not made? <p>Think of the potential answers to these questions as you develop your revenue forecasts?</p>

<p>52: The Abscissa of Time</p>	<p>Often, the buyers of an offering are very different from the users of the offering. It is critical to understand the motives of each. Unfortunately, there is an inordinate emphasis on focusing on Key Decision Makers -- buyers while ignoring users. The hidden assumption to this “logic” is that buyers will make the offering available, and users will simply have to use it. The truth is that users have all the power! Perhaps not with the initial sale but later based on their actions or lack of action.</p> <p>The truth is that buyers won’t buy what users won’t use. Winning over users first and letting them be your internal advocates is the key to winning over buyers.</p> <p>Think of a mom or dad in the toy aisle with their child. A child may hold up a toy and ask their parents to buy it. Clearly, the parent, the buyer, can say yes or no. However, if a parent shows a toy to the child and the child says no, the parent won’t buy it. So, buyers can say yes or no, and users can only say no either now or later.</p> <p>You must carefully understand both buyers and users during each phase of the discovery process.</p> <p>After the buying decision is made, often based on emotions or a feeling, the rationalization process begins. Features, benefits, pros and cons, vis-à-vis alternatives will be stated, and consensus will be sought. When talking to prospects after the sale, probe to determine the real reason behind the decision. It may take some digging.</p>
<p>53: Third Level of Discovery</p>	<p>It takes time to finish the third level of customer discovery. It is only completed when prospects become customers as determined by their buying actions. Up to this point, discovery activities are based on opinions: First, the entrepreneur's opinion, and second, the prospects interviewed during the discovery process. Generally, those thoughts and discussions involve narrow thoughts, focusing only on the problem and solution in isolation. When prospects are in the buying-decision process, they weigh the decision based on alternatives. Those alternatives may be directly comparable, or many involve totally different expenditures. The buying decision comes down to the perceived VALUE of the offering vis-à-vis all other alternatives.</p> <p>Value, as determined by the customer, can vary considerably. It may be a dollars and cents issue, it may be in competitive positioning, it may be politically motivated, or it may involve other factors that may never be obvious. Discovering THE compelling reason may be very difficult.</p>
<p>54: #3 Paying-Customer Discovery</p>	<p>It is easy to envision your offering's widespread adoption among your target, mainstream market. However, that market may not be a good place to start. For example, assume you have a unique, customer-oriented product that you have developed and built in your basement. You approach Walmart who loves it. They say: “Let’s go, can you ship it to 4,000 stores simultaneously so that we can have a mass market launch?” Of course, this is an extreme example. The point is that it may be better to start in a market that is far more manageable and in which you can learn and recover as unknown issues emerge – and they will. In sports, there are practices, scrimmages, and preseason games to prepare for the season. It is highly advisable to follow the same strategy.</p>
<p>55: Who Bought?</p>	<p>Pursuing “A” market rather than “THE” market can result in misleading conclusions. They may not be representative of the ultimate market you plan to pursue. The slide shows a scenario that is quite common. Another example is sales to friends or family, who will naturally be more forgiving than “anonymous” customers. Finally, every fall we see the major college football powerhouses play</p>

	<p>“tuneup” games against smaller schools that they massacre. Later, when playing peer schools, those plays that worked so well against the lesser opponents fail miserably. The lesson is that you need to carefully consider the differences when pursuing “A” market versus “THE” market.</p>
56: Apples to Apples or Oranges?	<p>Thinking in extremes is a usual method to identify your ideal customer. Using what I call a “rail diagram, helps in this process. Think of your ideal customer near one rail, and the poorest-fit customer on the other. Sales opportunities will lie somewhere between these two extremes.</p>
57: Define Your Ideal Customer	<p>Develop ten to fifteen characteristics that define each rail. It is best to identify the Ideal Customer characteristics first. They may or may not be on one rail. In this case, the Ideal Customer is not a mega-corporation. Also, it is local. This representative chart was made up for a customer in the “A” market segment. For the poorest rail, think of the opposite characteristics.</p>
58: Customer Placement Example	<p>This is a pictorial view of the analysis. The Ideal Customer is shown, along with the current opportunity the company is pursuing. This type of analysis helps qualify prospects. An Excel™ tool is available on the website that shows how to construct a rail diagram.</p>
59: Understand Who and Why	<p>Understanding why you won over the many alternatives is important in understanding your product-market fit. It goes back to the second question involving the compelling reason. Initial sales success must be carefully analyzed. It may be wishful thinking to assume those initial sales indicate what will motivate the general market. Savor those early victories but take the time to objectively determine why you won and if the trend is likely to continue.</p>
60: Review All Opportunities	<p>Rarely do entrepreneurs or companies do Win Reports. The emphasis seems to be on Loss Reports instead. Both are important to help to project future successes or failures. The win or loss was often caused by factors that may not have been obvious during the sales process. This is one of the major reasons that the sole focus on the Key Decision Maker is flawed. Behind the scenes, others may be exerting subtle or direct influence. Remember the statement, buyers won’t buy what users won’t use.</p>
61: Discovery Trap Example	<p>This is an example of how a great business proposition that cannot be ignored but is ignored. It is easy to assume that everyone in an organization is “wearing a big hat” and thinking about the overall good of the company. Unfortunately, individual goals and metrics often get in the way and have priority over the “common good.”</p> <p>Understanding the buying and not-to-buy motives of all the impacted people and departments is critical. Key decision makers rarely make decisions on their own. They rely on others. They need and want consensus.</p> <p>So, during the prospect discovery process, one must look deep and wide and not assume that ONE person represents all the interests in an organization. Earlier, it was mentioned that the person WITH the problem may be very different than the person IMPACTED by the problem. It is equally important to understand who will be impacted by the solution as well. The example above illustrates</p>

	<p>the point. The person tasked with firing people due to implementing a more efficient method may be internally powerful enough to stop the sales or “ensure” its failure.</p>
62: Why You Lost?	<p>Truly understanding why a sale was lost is not easy. Often, convenient but simplistic reasons are given. It is natural for those involved to attempt to deflect any “blame.” It should not be a blame game. Instead, it should be viewed as a data point to avoid in the future.</p> <p>A lost sale is more than a loss of revenue. It also represents a loss of time and other resources that cannot be recouped. Carefully thinking about how to respond and change course before the loss can help avoid them. Other presentations in this series discuss the notion that it is critical to flush the sales funnel instead of filling it. Ideally, the funnel should be flushed by having opportunities go through the entire sales funnel process that result in orders. However, flushing “out the sides” of opportunities as soon as possible that have a low chance of success is equally important to redirecting or saving resources.</p> <p>Another useful technique is to reframe an impediment into an advantage. For example, if a prospect is concerned about a new company’s small size, discuss how “you are small enough to care about every customer.” Bring the issue up before the impediment surfaces. Before the fact, it is an explanation. After the fact, it is viewed as an excuse.</p>
63: Lost to Whom/What?	<p>Who you lost to is as important as why you lost. Is this loss one-of-a-kind or common? Do you expect it to reoccur regularly? What can you do now to avoid similar circumstances in the future? Ask and answer the four questions and track them.</p>
64: The Third Question	<p>Even in the early days, when you are just <i>thinking</i> about your business, long before the customer discovery process has started, you need to consider this question. Statistically, only half the businesses started make it to year five, and 80% never make it to year ten! Some of the failed businesses probably should never have been started, but I speculate most failed due to one of the four operational issues mentioned. Those four items only represent half of the equation --- the “product” side of the Product-Market fit issue. The “market” side of the equation is something that a company has little power over. Markets shift and change. New technologies, external events, customer whims, and many other factors can make today’s idea product-market fit solutions obsolete – sometimes overnight!</p>
65: Three Levels of Discovery	<p>Virtually every coach, mentor, incubator, and seasoned entrepreneur emphasizes the importance of customer discovery. Most entrepreneurs heed that advice. Often, it occurs out of desperation after first attempting to short-circuit the process and quickly jump into a market.</p> <p>Those that don’t go through customer discovery are rarely successful. Unfortunately, most customer discovery activities focus on meeting with prospects to discuss the applicability of the entrepreneur’s proposed solution. Although those discussions are important, they often are misleading.</p> <p>Instead, it is important to dig very deeply into the current problem or the issue that prospects are interested in addressing and have a genuine need and can ascribe value to its solution. The problem is that the apparent problem or situation may not be the root cause that must be addressed. During Problem Discover, it is critical to look well beyond the obvious issue. Following the Five Why’s</p>

	<p>Principle, developed by <u>Sakichi Toyoda</u>, the Founder of the Toyota Motor Company, is an excellent technique to discover the underlying problems.</p> <p>The last discovery level is the most important. The first two levels involve opinions, first, the entrepreneur’s opinion and second, involves the prospect’s opinion. The third phase is not based on opinion. It is based on actions -- did the customer actually buy the offering? This is the acid test of the other two phases.</p>
66: A Fourth Level of Discovery	<p>Heraclitus, Greek Philosopher from 500BC, said it best: “The only thing constant is change.” Customer Discovery is not a one-time activity. Instead, it must be a continual process. Assumptions and feedback need to be reviewed carefully and often. It is interesting to note that many successful companies are the least likely to embrace this concept. Perhaps it is out of fear their “good thing” may end. Internally, if someone brings up potential threats, they are often viewed as a negative thinker, not being with the program, or not being a team player. When things do not go well, many come out of the woodwork with “I knew it” or “I told you so.”</p> <p>It is good practice to take the lessons learned in the discovery process and create a bulleted list of the major conclusions reached and how you reached them. Periodically review the list to determine if they are still correct. If not, take action before someone else does!</p>
67: Be Paranoid...	<p>Andy Grove, the Founder of Intel, wrote a book and believed “only the paranoid survive.” I commonly use a statement and question: “Someone will put you out of business – will it be you or someone else? The “someone else” could be a direct competitor. They could be currently offering a solution they can scale up or scale down to compete with you. They could have a product you feel, is obsolete, only to find out later they will leapfrog you. Or they could offer a product or service that could be modified to compete with you.</p> <p>A new competitor may come from a company that has never focused on your market or product. A good example of this is Apple and their entry into the cell phone market. Their MP3 players became an excellent launching pad for the iPhone. When outsiders speculated on Apple getting into the cell phone market, the “experts” scoffed at the idea. After all, “Apple knew nothing about building a radio!” They were only partially correct. The radio performance of the original iPhone was not as good as the incumbent suppliers. The market didn’t care. The novel features of the iPhone more than compensated for the radio’s lack of performance. In a stroke of marketing genius, Apple blamed the radio issues on the AT&T, the network provider didn’t try to set the record straight. With their exclusive arrangement with Apple, they were adding subscribers with the new phones like crazy!</p>
68: One Example...	<p>Apple’s disruption of the cellular phone market is an example of both a dramatic change in the product-market fit equation. Apple continually launches new versions of their phone while the current version is still selling well. Competitors have to keep guessing what they will do next.</p> <p>The iPhone turned the market on its ear with its “novel” features. In fact, the original iPhone’s radio performance was far worse than the existing competition. It didn’t matter. With all their features and user interface, they transformed the market.</p>

	<p>From a product perspective, what put the iPhone 1 out of business was the iPhone 2. What put the iPhone 2 out of business was the iPhone 3. And it continues. In each case, the current product was still selling well when the new version was released. Competitors simply could not keep up.</p> <p>From a market perspective, the unique capabilities of the iPhone created an entirely new class of phones and a market. The existing suppliers, with one exception, Samsung, have all fallen by the wayside or are only minor players.</p> <p>Apple totally changed all aspects of the product-market fit equation.</p> <p>Not only did they disrupt the phone market, but they also disrupted the MP3 player, watch, camera, and PDA markets, and expanded use email and personal messaging.</p>
69: “Protect” Your Position	<p>Another example is Amazon. Starting as a modest online bookseller, they added more and more products to their portfolio. Simultaneously, they added more capabilities. Most of those capabilities were based on their focus on technology – something the retail business was not know for.</p> <p>It’s all about “stickiness.” Amazon is an excellent example – ask any of the big box retail stores. Many customers will go to a big box retailer, check out an offering, and then buy it on Amazon. Many car dealerships are experiencing the same situation with their online competitors.</p> <p>Determine how you will fend off would-be competitors and create a customer experience so strong that customers do not consider after-the-initial-sale alternatives.</p>
70: The Three Questions	<p>As woven throughout this presentation, these three questions are the basis for customer discovery. I give entire presentations of each of the three questions. What makes them so important and profound are the implications of each of the keywords in each question. Without a doubt, the three questions and their issues included in this presentation can make the most seasoned entrepreneur’s head spin. It would be easy to become overwhelmed and simply throw in the towel and give up. Some do. However, others think of these three questions, their answers, and their implications as warnings of things that could derail their plans. Like thunder in the distance, heeding these warnings early can give an entrepreneur adequate time to prepare or make alternative plans. Hoping that they will go away is not a strategy.</p>
71: One More Thing...	<p>Most entrepreneurs think they are unique and their idea is better than most. It is hard to be objective about your own thoughts. External validation based on the action of others is all that counts.</p> <p>A regimented approach with customer discovery can help you bridge the gap between what you think and what others do.</p>
72: Presentation Can Be Accessed...	<p>These slides notes, in PDF form, and the entire PowerPoint™ presentation are available on the website as indicated. The CxO-Atlas website content abstracts are free to browse. Registered users can view and download any of the articles, presentations, and tools on the site. An AI chatbot allows users to ask questions with responses based on the 730 plus articles included.</p>

	Registered user's information will not be shared with anyone or any organization.
73: Nine Related Presentations	Although this presentation is very long. Several key subjects have been omitted that entrepreneurs need to consider as they move through the customer discovery levels and travel on their journey to success. This slide lists nine of the most relevant areas.
74: CxO-Atlas Website Article Organization	The CxO-Atlas website content is free to browse and read each article's abstract. Members can browse, read, and download any of the articles, tools, or presentations on the site. Members can also interact with a private AI chatbot by asking questions and then interacting with the responses. The chatbot's responses are based on the site's uploaded content.