

# University of California at Berkeley - Haas School of Business

## MBA 295F & EMBA 295F

### The Customer Development Process in High Tech: Sales, Marketing & Business Development in a Startup

<i>Instructor:</i>	Steve Blank	
<i>Date:</i>	Tuesdays 6-8pm	<i>Room:</i> C220 Haas
<i>Prerequisite(s):</i>	Passion, Creativity and Resilience	
<i>Class Format:</i>	Lecture/Guests	<i>Units of Credit:</i> 2

### Purpose of the Course

This course is about how to build a “Lean Startup” and successfully organize sales, marketing and business development, with particular emphasis on high technology companies, by using the “Customer Development” methodology. Its premise is that startups are not smaller versions of large companies. Instead early stage ventures require their own tools and techniques.

For the purpose of this course, a “startup” can either be a new venture, or an existing company entering a new market. Both must solve a common set of issues: Where is our market? Who are our customers? How do we build the right team? How do we scale sales?

The class will cover the four steps of Customer Development; *Customer Discovery* - understanding customer problems and needs, *Customer Validation* - developing a sales model that can be replicated, *Customer Creation* - creating and driving end user demand, and *Company Building* - transitioning the organization from learning and discovery to a well oiled machine engineered for execution.

The key points of this Customer Development class are:

1. *Get out of the building.* Very few technology startups fail for lack of technology. They almost always fail for lack of customers. Yet surprisingly few companies take the basic step of attempting to learn about their customers (or potential customers) until it is too late - it's just so easy to focus on product and technology instead. True, there are the rare products that have literally no market risk; they are all about technology risk (i.e. life sciences and a "cure for cancer"). For everyone else you need to get some facts to inform and qualify our hypotheses ("fancy word for

guesses") about what kind of product customers will ultimately buy.

2. *Theory of market types.* Market Types explain why different startups face wildly different challenges and time horizons. There are three fundamental situations that change what your company needs to do: creating a new market, bringing a new product to an existing market, and resegmenting an existing market. If you're entering an existing market, competition comes from the incumbent players. When creating a new market, it may take years before you get traction with early customers.

3. *Finding a market for the product as specified.* Customer Development tries to find the minimum feature set required to get early customers.

4. *Phases of product & company growth.* Customer Development posits that startups go through four stages of growth; Customer Discovery (when you're just trying to figure out if there are any customers who might want your product), Customer Validation (when you make your first revenue by selling your early product), Customer Creation (akin to a traditional startup launch,) and Company Building (where you gear up to Cross the Chasm and realign management).

5. *Learning and iterating vs. linear execution.* In the early stage of a startup companies are focused on figuring out which way is up. In a traditional startup, they would probably launch their product and company, failing or succeeding spectacularly. Only after a major, public, and expensive failure would they iterate.

6. *Premature Execution:* An insight of Customer Development is that startups need time spent in a mindset of learning and iterating, before they try to launch. During that time, they can collect facts and change direction in private, without dramatic and public embarrassment for their founders and investors.

This course will challenge your perception of the traditional sales, marketing and business development roles, leave you with a new way to view and organize these roles, and help you increase the odds of a successful venture.

## **Requirements**

The main requirements for this class are passion, energy and resourcefulness. The course also assumes that students have either; experience in bringing a new product to market, taken a basic Entrepreneurship course, or have written a business plan.

**Method of Instruction:**

The course will combine lectures, readings, case materials and regular class involvement by entrepreneurs and business professionals. Well-prepared and intellectually engaged students are essential for the class to succeed.

The readings for this course are principally from the course text: [Four Steps to the Epiphany](#), articles, book chapters and cases that will be published in an on-line Reader. They are organized as required readings and cases for class discussion along with suggested *supplemental readings* that will deepen your understanding of the class.

**Method of Evaluation:**

- (1) Three *Application Exercises* assigned throughout the semester, students will work individually and independent to analyze Customer Discovery, Customer Validation and Customer Creation choices companies have made. Students will analyze company's customer and market hypothesis, channel and sales strategy, and demand creation activities. These exercises will cover understanding early customer needs and matching them with product features, how to research product distribution channels, creating a sales roadmap for early customers, and demand creation and chasm-crossing sales plan to transition to mainstream customers. The companies used in these exercises can be known from direct experience or from independent research efforts.
  
- (2) A team-written *independent research paper* (teams of 4) of approximately 10 pages in length. Paper that discusses lessons learned from the class and from independent research conducted during the course of the semester.

**Basis for Final Grade:**

Students will be graded on the independent research project (50% of final grade), completion and quality of effort related to the *Application Exercises* (25% of final grade), and class attendance and participation (25% of final grade).

**Instructor**

*Steve Blank* is a retired serial entrepreneur and private investor. Since 1978 Steve has been a founder of or participant in eight Silicon Valley startups including Zilog

and MIPS, two semiconductor startups; Ardent, a supercomputer company; Convergent Technologies a workstation company; SuperMac, an Apple peripheral supplier; Rocket Science, a video game company, and E.piphany; an enterprise software company. These startups resulted in five IPO's, and three very deep craters. Steve's operational roles have spanned CEO to VP of Marketing.

Currently, Steve is a director on the board of CafePress.com. In addition, he serves on the boards of Audubon California and the Peninsula Open Space Trust. He was appointed to the California Coastal Commission by Governor Schwarzenegger in February 2007. Steve has been lecturing at the Haas School at U.C. Berkeley in the entrepreneurship program since 2002, Columbia Business School since 2005, and Stanford's Graduate School of Engineering since 2006.

Office hours, e-mail addresses and phone numbers for the instructor: Steve Blank  
Haas Room F457. By appointment. e-mail [sblank@kandsranch.com](mailto:sblank@kandsranch.com)

## UNIT 1: INTRODUCTION

### 1 January 20<sup>th</sup> Introduction to the Course

*Learning Objectives:* (1) Course organization (2) The value of “models” (3) The “startup process” (4) The “three types of startups” (5) Customer needs versus product features (6) The startup team (7) Sales, Marketing & Business Development Execution

*Reading:* Do Business Plans Make No Difference In The Real World?

### 2 January 27<sup>th</sup> Vertical Markets/The Three Types of Startups

*Learning Objectives:* (1) Market risk vs. Invention Risk (2) Vertical Markets (3) Market types and startup goals

*Reading:* Blank – Four Steps to the E.piphany – Chapter 1

*Supplemental* Clayton Christensen - Innovators Solution – pages 43-51

*Reading* Clayton Christensen - Six Keys to Creating New Growth Businesses

*Case:* In & Out Burger

### 3 February 3<sup>rd</sup> The Customer Development Process

*Learning Objectives:* (1) Product Development (2) Customer Development, (3) Agile Software Development.

*Reading:* Boyd – OODA Loop PowerPoint slides

Blank – Four Steps to the E.piphany – Chapter 1, Chapter 2 page 1-7

Agile Alliance <http://www.agilealliance.com/>

*Supplemental* Fast Company – The Strategy of a Fighter pilot

*Reading* McGrath & MacMillan – Entrepreneurial Mindset – Chapter 10 pages 231-245

*Case:* E-Ink & E-Ink 2005, Frank Addante Serial Entrepreneur?

## UNIT 2: CUSTOMER DISCOVERY

### 4 February 10<sup>th</sup> The Customer Development Model: Customer Discovery Part- 1

*Learning Objectives:* (1) Board/Team Buy-in (2) Startup Hypothesis (3) Testing the Problem and Product Concept

*Reading* Blank – Four Steps to the E.piphany – Chapter 3

*Supplemental* McGrath & MacMillan – Discovery-Driven Planning

*Reading:* McGrath & MacMillan – Entrepreneurial Mindset – Chapter 10 pages 256-261

Scan the Webvan source materials. The S-1, 10Q's. 8K's, etc.

Red Herring – Can Webvan Deliver?

*Case:* WebVan, compare to Amazon

### 5 February 17<sup>th</sup> The Customer Development Model: Customer Discovery Part - 2

*Learning Objectives:* (1) Customer Development Team (2) Customer Needs versus product features (3) Understanding the customer.

*Reading:* Christensen – Discovering What Has Already Been Discovered

Note on Lead User Research

*Case:* IMVU,

*Reading* Lindem Labs Case

*Guest* TBD

**6 February 24<sup>th</sup> The Customer Development Model: Customer Discovery Part -3**

*Learning Objectives:* (1) Testing Market type (2) Market Type selection (3) operating model

*Case:* **Motive Communications**

**UNIT 3: CUSTOMER VALIDATION**

**7 March 3<sup>rd</sup> The Customer Development Model: Customer Validation Part -1**

*Learning Objectives:* (1) Customer Validation team (2) Value Proposition (3) Getting Ready to Sell

*Reading:* Blank – Four Steps to the E.piphany – Chapter 4

*Supplemental Reading:* Heiman & Sanchez – The New Strategic Selling – Chapter 2 Strategy & Tactics  
Heiman & Sanchez – The New Strategic Selling – Chapter 5 Buying Influences

*Case:* **Wildfire A-D**

*Application Exercise:* Customer Discovery

*Guest:* **TBD**

**8 March 10<sup>th</sup> The Customer Development Model: Customer Validation Part -2**

*Learning Objectives:* (1) Earlyvangelists (2) Sales to early customers (3) Product and company positioning (4) testing the financial model

*Reading:* Bosworth – Solution Selling – Strategy 1 & 4 - Three levels of Buyer Needs,  
Solution Selling Tools  
Moore – Positioning Your Product

*Case:* **HP Kittyhawk**

**UNIT 4: CUSTOMER CREATION**

**9 March 17<sup>th</sup> The Customer Development Model: Customer Creation Part -1**

*Learning Objectives:* (1) Customer Creation versus marketing communications (2) the four building blocks of Customer Creation (3) the role of “branding”

*Reading:* Blank – Four Steps to the E.piphany – Chapter 5  
Holt - Brands & Branding

*Case:* **Ecton**

*Application Exercise:* Customer Validation

**NO CLASS March 24<sup>th</sup>**

**10 March 31<sup>st</sup> The Customer Development Model: Customer Creation Part -2**

*Learning Objectives:* (1) Company and Product Launch (2) Company and Product Positioning (3) Demand Creation

*Reading:* McGrath & MacMillan – Entrepreneurial Mindset – Chapter 9 pages 197-215  
Schuler - Lanchester Background

*Case:* **Erox? Brightcove and Internet TV?**

*Guest:* **TBD**

- 11 April 7<sup>th</sup> The Customer Development Model: Customer Creation Cases**  
*Learning Objectives:* Customer Creation in the real world, Alternate Demand Creation Strategies  
*Reading:* The Hidden Persuaders (NYT Article)  
 Marketers Feverish Over Viral Ads (Wired Article)  
 Making Waves (CMO Magazine Article)  
 An Investigation of Pay Per Click Search Engine Advertising: Modeling the PPC Paradigm to lower Cost per Action  
*Supplemental Reading:* Google AdSense Tour [http://www.google.com/services/adsense\\_tour/](http://www.google.com/services/adsense_tour/)  
 Word of Mouth Marketing Association <http://www.womma.com/>  
**Case:** Tivo A & B, Tivo 2007  
**Guest**

## UNIT 5: COMPANY BUILDING

- 12 April 14<sup>th</sup> The Customer Development Model: Company Bldg Part -1**  
*Learning Objectives:* (1) Building a mainstream customer base by Market Type  
*Reading:* Moore – Breaking into the Mainstream  
 Moore - Target Markets  
 Blank – Four Steps to the E.piphany – Chapter 6  
*Reading:* Is Yours a Learning Organization (HBS Toolkit)  
 The Founder’s Dilemma (HBS Review Article)  
*Case:* Documentum  
**Application Exercise:** Customer Creation  
**Guest**
- 13 April 21<sup>st</sup> The Customer Development Model: Company Bldg Part -2**  
*Learning Objectives:* (1) Culture wars (2) Mission-centric culture (3) Fast-response departments  
 (4) Growing the company  
*Reading:* Blank – Four Steps to the E.piphany – Chapter 6  
*Supplemental Reading:* U.S. Marine Corps – Warfighting Manual – Pages 46-51 (Leadership/Training,) Pages 63-67 (Philosophy of Command), Pages 70-75 (Mission Tactics/Intent/Focus)  
 Boyd – Patterns of Conflicts – pages 75-80, 128-135  
 Bhide – Building the Self Sustaining Firm
- 14 April 28<sup>th</sup> Wrap up - The Customer Development Model:**

## Finals Due May 5<sup>th</sup>

Team Research Paper Due – 4,500 words, 10 pages minimum (see research paper description for details)

## Deliverables

Students choose 3 Application Exercise Papers + research paper

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|--------------------------------|---------------------------------|--|
| (1) Due March 3 <sup>rd</sup>  | Application Exercise Paper Due: | Customer Discovery                     |
| (2) Due March 17 <sup>th</sup> | Application Exercise Paper Due: | Customer Validation                    |
| (3) Due April 14 <sup>th</sup> | Application Exercise Paper Due: | Customer Creation                      |
| (4) May 5 <sup>th</sup> :      | Team Research Papers Due –      | minimum 5,000 words, at least 10 pages |