



CUSTOMER DISCOVERY: An Iterative Process – Episode 4

TITLE:

From Prototype to Product, to Find Product-Market Fit

DESCRIPTION:

The ultimate validation is revenue. Build and ship the first version of your product to find your first paid customer, and start walking the path to “product-market fit.”

[LEARN@LIFT Episode Intro]

In this episode, we’re going to discuss moving beyond a prototype, to paying customers. The ultimate validation is revenue. So this whole episode is all about how to get to that product-market fit that comes from generating revenue.

By this point, you’re feeling confident that you’ve selected a large, unmet problem in an attractive market, and designed the right solution with a handful of customers who can’t wait to use it.

While we won’t rehash why you should move beyond your prototype with a Minimum Viable Product to launch, learn, and then re-launch in small iterations — there’s already a great book on this called *The Lean Startup* by Eric Ries that I’d highly recommend you read, if you haven’t yet — we will dive into a set of principles that will help you confirm that you’re building a sustainable business, around the right product, that’s aligned with where your market is heading. I’ll also give you a set of questions to consider along the way, to help ensure you stay on the right track.

This way, you'll have a high degree of confidence that the time, budget, skills and focus you invest in building your product will have the highest possible probability of success.

First, the Market.

This is the first thing you'll want to double-check, to ensure you're playing in the right space with a decade or more of opportunity.

For example, if you're building a more compact fax machine, well, I don't need to explain that the market for fax machines has declined precipitously. So, here's your first set of questions:

- How big is the market? Can you define it in terms of population size and total spend — which is the number of attainable customers, times the average value per customer.
- Related to this, how price sensitive is your customer? Do you believe you'll be able to compete on value and increase pricing over time? Or will you face shrinking margins?
- Is this market growing or shrinking? How do you expect it to change over the next decade? How does this compare to the size and growth rate you'd like to spend a considerable amount of time and budget investing in?
- Are there any adjacent markets that you'll be able to parlay your product into over time?
- Are there a lot of legal barriers or regulations within this market? How challenging will it be to break into for the first time?
- Have many new startups been launched in this space? What products are they building? And how will your product keep a competitive edge over them?
- Is there a specific niche to all of your answers in the above? How broad and general, vs. specific and targeted have you been considering the market?

Notice that we've intentionally started with the market — not the product — side of the product-market fit equation.

My goal in doing this is to help you pull back from your focus on the product, which you'll inevitably fall in love with. If you're like any good entrepreneur, you'll want to jump right into seeing the product vision in your head come to life. But it really is critical to stop, step back, and re-assess that your specific niche and market direction is still attractive after all the research and development at this point.

Now, it's time to talk Product.

The questions you'll want to consider here go beyond the basics of features, use cases, and solution design, which we discussed in the last episode. Now, we need to consider that your product will create the foundation of a scalable company. Because different types of products can make for a very, very different set of go-to-market models and unit economics.

- First, how much will it cost you to acquire a customer? Do you have an estimate based on how you'll sell the product — online, with a salesforce, or in physical stores?
- How much will customers pay to use your product? How often will they pay? If you combine these two estimates, you'll begin to find a ratio of costs to customer value — an incredibly important ratio to consider.
- Next, do you need to build the technology from scratch, or could you piece together some white-labeled solutions that currently exist on the market? What indicators in the general tech market suggest now is a good and feasible time to build?
- What does the first version of your product need to look like, given today's level of quality that's already expected in the market? How does the capital needed to build that level of product compare to what you have on hand?

- How long will it take you to build this? And what does that tell you about the opportunity cost (in your life and career) that will be required? Are you really ready for this?
- Has anyone else tried to solve this problem with a similar product? What happened, and what does that suggest you do differently?
- Do you know the one “wow-factor” of your product? What makes it different?
- Will your product approach create some new IP? Or, is it possible that you may be infringing on someone else’s IP?
- Finally, if you were to explain this product and how it works to your mom, would she understand it?

If you can't answer these questions with conviction, it's a sign you may need to do some more planning before jumping into investing in the full product development. The likelihood that you'll be able to raise capital, or build a solid team, without specific answers to these questions is small.

Finally, as we close out this episode, remember it's important to bounce the answers to any questions you're struggling with off your users you previously interviewed. They'll be able to give the final guidance to follow as you take your next step and start building your first product.

[Insert LIFTLabs Outro]