

[SQUEAKING]

[RUSTLING]

[CLICKING]

**PROFESSOR:** OK, course logistics. This is actually an MIT course, 15. 393. The public website, because we have people taking the course that are not MIT people, is nutsandbolts.mit.edu. If you're registered officially through the MIT registrar for credit or as a listener, you should have access to the Canvas site, which appears at the bottom of the home page of nutsandbolts.mit.edu.

The only two requirements-- this is a three-unit pass/fail course. Only two requirements-- one is that you attend each session, and we'd like to do that in person because of what you just saw, this team-building. There have been many teams coming out of this course that entered the \$100K competition, and a number of those went on to become successful companies-- started right here in this class.

In order to figure out, whether you actually attended every night there will be a code, an attendance code. You'll see them on the doors there on blackboard. You go to the Canvas website, and under Assignments there will be a quiz. And you pick which of the four answers there is the attendance code. That will appear, I think, right around 9:00 every night. So that's that.

A written requirement-- either an executive summary or a pitch deck is a requirement for the course. We'd like this to be done by teams for two very important reasons, the first of which isn't the most important. But if everyone did a separate written requirement, I'd have to look at a whole bunch. If you do it as teams, I don't have to look at as many. That's just a personal thing.

The more important thing is it's been shown that teams have a higher probability of success than individual sole entrepreneurs. So here's a chance to try out team-building and team logistics. So we would like you to form teams if possible.

The written requirement is due Friday, January 31. If you're on Canvas, you'll see that as the assignment. The team efforts-- there's a Google Sheet where if you want to go in and put your name and what you're interested in, that can foster some team-building. And we'd like you to try to do that by the 25th, this week. And so if you're having trouble finding a team, then we can work with you in the TAs to figure that out.

Because we've compressed nuts and bolts into the last two weeks of independent activity period, the grades do have to get in within a couple of days after the end. So we'll be focusing on those and giving you feedback. For people that are taking the course as a listener, either formally or just listening who would like to submit something, we'll figure out how to have you email that to us. The written requirements for those taking the course for credit will be submitted through an assignment at Canvas.

For those that are not taking it for credit who want some feedback, we'll first get the grades in, and then we'll turn and give you some feedback. So that's I think all of the basic logistics. Are there any questions? OK, obviously, if you have any particular questions, you can talk to me separately or the TAs.

So for the second part of this evening, we're going to have Bob Jones--*Finding Your Customer*.

[APPLAUSE]

Now, Bob and I were in a one year, 12-month Master's of Science and Management program at Sloan. That's like an MBA with a thesis. We did the first year in three months over the summer, going 5 and 1/2 days a week, and then we had to write a thesis.

Needless to say, it was a pretty high-intense environment. And Bob came up with the concept of economics, the consumption function. So Bob is the founder of the consumption function. Maybe he can expound upon that when he steps up.

He's also a blues guitarist, and there's his website. I think you have a gig coming up. I got an email yesterday.

**BOB JONES:** Thursday night.

**PROFESSOR:** Thursday night. Oh, well, they can't go, but maybe I will.

**BOB JONES:** It's at a brewery.

**PROFESSOR:** At a brewery.

**BOB JONES:** Kind of makes sense.

**PROFESSOR:** So what I'm going to do is switch over and introduce Bob. You want to start introducing yourself while I get your slides teed up here. There you go. I give you Bob Jones.

**BOB JONES:** Thank you.

[APPLAUSE]

Oh, you're applauding already. I'll just quit right now. Thank you. I have this old fashioned, quaint notion that if I'm going to ask you to give me your attention for 90 minutes, I ought to give you back something in return that's worthwhile-- justifies that 90-minute investment on your part.

And there's really two questions that I need answered in order to do that well. and the first one is who are you. And the second one is, what do you want? And thanks, Joe. We've got a lot of statistics as to who you are, but I don't have a real good answer as to what is it you want. So let me poll a few of you and ask a couple of open-ended questions.

How many of you are currently working on a startup that's beyond your first one? Your first one's already behind you. OK, so you guys are 10 years older than you were two years ago. How many of you are engaged in your first startup right now? OK, medication is available. And how many of you are in this course because you're actually thinking seriously of doing this when you graduate?

All right. Well, that leaves a whole bunch of you that are unaccounted for. Are you exploring? I know when I was here and we had IAP, I took springboard diving. So I spent four weeks at the MIT pool shivering up on the high board. It was utterly unacademic, completely awesome, and purely exploratory. So are some of you in here for that, just checking it out? Yeah, OK. Well, that helps a lot. Thank you. Then I think we've answered that. There are some lots of good reasons, and you've given good reasons.

There are one or two bad reasons, like I hope that Joe will give me the magic word-- shazam-- that will cause me to have a billion-dollar business. And then I'll sail my yacht to St. Barts next year for New Year's. If you know how to do that, you've been holding out on me.

A couple words on my background. I ended up starting four startups with a bunch of docs out of Harvard Med School. I broke down and wrote a book when I got done with all that. It's on Amazon-- *How to Avoid Failing in the Crucial First Two Years*-- a lot of sobering lessons.

I took a break between startup number three and startup number four because I was recruited to become CEO of a company publicly traded in Hong Kong, and it was a turnaround. Do you guys know what that means? It means it was a dreadful mess, and it had been losing money for a long time. And I was the person they brought in to fix it, was completely flummoxed by how many things were wrong.

And the executive search guy says, you need somebody who's not afraid of a blank sheet of paper. I got just the guy. So it was not innovative. It was not glamorous. I had to fire 75 people, but I fixed it. And then I went back to entrepreneurship.

I've had a couple normal jobs. I went to a couple of schools. As Joe mentioned-- excuse me-- I am a working musician. Played last Thursday. Played Saturday. Playing this coming Thursday. And I do a fair amount of volunteer work in homeless shelters, usually as a musician.

That one and the bottom right is a big homeless shelter in Quincy Thanksgiving Day. And I had called him up in advance and said, do you guys need like a really nerdy guitar player to sit in the corner and play nonviolent music while you feed your guests?

And they said, well, that's exactly the description. Are you a really nerdy guitarist? I said oh, yes. This was five or six years ago. This particular day they fed 1,000 people. I took the picture before anybody came in the room for privacy reasons, et cetera. But anyway, I'm out and about.

So the classic academic paradigm is that the professor articulates a lofty concept. And the students write it down and hope one day to figure it out. And I have never had any success doing that with entrepreneurs and prospective entrepreneurs.

The professor might say risk averse mean variance utility maximization is often cited as an explanation for consumer behavior, but it implies quadratic utility functions, which have never been empirically demonstrated. And everybody writes it down, and nobody's willing to elbow the person next to him, say, you have the slightest idea what that guy just said? No.

So I'm going to go in the opposite direction and start with some almost trivially simple examples. And in the course of our 90 minutes, I will get progressively more complex. So indulge me for a second.

Let's say I wake up tomorrow morning and decide I've had enough of this hyperactive, overcharged, overintellectualized world, and I'm just going to be a grumpy old guy living in a tiny house in the Berkshires. It's not that crazy an idea, actually.

But I get there, and I think I got to do something. Maybe I could give guitar lessons. I'm a pretty good player. I like to teach. And I could offer different levels of instruction.

I could start with some beginners. Here's your basic chords. Here's how to tune it up. We get a little more advanced because nobody understands the groove when they first get going, so how to play in time and so forth. And then for those people who are sticking with it, we could talk a little bit about how you play a solo in Mixolydian mode that still sounds like the blues and all of that.

I wouldn't need much. I'd need a small studio, a couple guitar amps, maybe a bass amp, maybe something to-- a drum machine or something. And let's just stop right there. This is a mistake I have made over and over again. Do you see it? It's subtle. Don't beat yourself up if you don't see it.

**AUDIENCE:** You don't know if there are students there [INAUDIBLE].

**BOB JONES:** I'm sorry. You're going to have to say it a little louder so I can repeat it for the--

**AUDIENCE:** You don't know if there are students there.

**BOB JONES:** I don't know if there are students there. Well, that is just one symptom of the problem, but it's a good answer. I think that over and over again we address the question, could I do it? And we ought to address the question, should I do it?

And in order to evaluate the question, should I do it, the single-most important question you need to eventually answer is, will I make enough money? Because regardless of the cause, the eventual symptom that makes most companies go belly up is they run out of money, or they're on a path where they will never make any money.

So let's dig just a little bit deeper. Let's begin at the end of the story. We want to make enough money. What do we need to do that? Well, we need revenues. Hopefully, they should exceed our costs.

Revenues come from customers. So we need customers, and we could stop right there. But obviously, we also need to figure out something that's broke and come up with a solution that we think is better.

But let's dig just a little bit deeper. How much money do we need to make? And how much is a customer worth? And I'm not real good at math, but I think if I divided one by the other, I could figure out how many customers do I need? A company needs to make a million dollars. Each customer is worth \$1,000. I need 1,000 customer. And then ask the question, how am I going to do that? I've seen umptynine ventures waste two years and most of their life savings because they did not go through this simple exercise.

So let's dig a little deeper. Let's ask, in this hypothetical example, how much money do I need to make? Well, I'm going to be grumpy and living in the Berkshires. And so the answer is not much. \$5,000 a month, make me happy.

Well, how much is a customer worth? And I do a little market research, and I find that they make-- they'll pay \$25 an hour, and they'll come twice a month. So they're worth \$50 bucks a month. Well, this is looking troubling, because if I divide one by the other, I need 100 customers in order to make the amount of money I want. You were on the right track.

Well, that's kind of daunting. I mean, it's nothing for a big organization. But for a grumpy guy who's just trying to start it from scratch, it's a lot. So can I do it? This is a cause for reflection.

So if it seems crazy, then I remind you of what Joe said. Good ideas are all over the place. It's time for another one. If I'm still standing, let's dig in a little bit.

So, in fact, let's do that. Let's start with the basic question, what broke that I propose to fix, and who's going to pay me to fix it? Well, the market I started with, the default market, if you will, school kids.

Well, what do they want? Well, a lot of them are just really nerdy, and they want something to do besides sit in their room and get yelled at for playing *World of Warcraft*. Some of them were guys who say, oh, man, if I played guitar, I'd meet girls. Some of them are girls who said, jeez, I'm tall, blonde. I sing, and I play bass. I have a million friends on the spot. Every now and then, if you're lucky, you actually find somebody who really loves the music, wants to do it well.

So these are my users, but are they going to pay me? Therefore, beyond a certain point, they're actually not my customers. So who's going to pay me? Parents, right?

Well, what's their profile? They say, well, let's buy the kid a guitar, spring for some lessons, Watch what happens. This analysis does not in any way challenge the market research I did previously. It's \$50 a month per kid, and I need 100 kids. So now what?

Well, I'd say let's erase this and start over. Are there other people who might be interested in this? Well, one possible answer is adults who say, I used to be cool until I had kids, and my brain's dissolved. I used to play in a band. I used to sing in a group. Man, I miss that stuff. Who would pay me? Well, those adults.

And if I were to say, well, let's see. You probably stopped playing about 20 years ago. And 20 years ago, there was that Santana tune that you couldn't get away from, "Man it's a hot one."

So if I taught you that tune on Tuesday night and pulled together an ensemble so you could play it with other musicians on Thursday night, I know exactly what you'd be doing on Wednesday night. By the way, I didn't just make that up. School of Rock does that-- hugely successful.

Well, then you might pay \$50 an hour because you're going to walk out of that second session saying, ah, man, I feel like Godzilla. I went in there and played my ass off, and it was fun. And in fact, you might come twice a week. So the economics start changing because we changed our customer profile.

Who else? Well, this volunteer work that I do with in these homeless shelters frequently is with a group of fellow volunteers. We go in with a bunch. There's a fairly charismatic front man who leads it. And as I look them over, I see a lot of gray hair. And I've asked some of them, why do you do this?

And they say, well, I used to sing a long time ago. And then Elmer, my husband, he got sick a few years ago, and then he died. And I miss it. I'm staying home all the time. I can only water my plants for so many hours a week. I'm lonesome. I'd love to get back out and socialize. And if I were fortunate enough to run across a gentleman who wanted to buy me dinner, that would be good, too.

So same business model, same format, maybe different music, but I'm meeting a different set of needs. And it looks like I could make \$400 per month per customer, which means I only need about a dozen or so. This looks a lot more feasible to me than trying to find hundreds.

My point-- I changed my approach to the customer. I dug in a little bit in terms of what do they need? What do they want? Some socializing. I want to be a little cool. I hope you'll find some relevance to this in the startup work you're about to do, or are already doing.

Let's ask the next question. How am I going to find them? Well, there's a subordinate question, of course. Who am I looking for? I used to think I was looking for school kids. I've changed my mind. So where do they look for information and connections? So I'll come back to that.

Here's one of the most important questions I'm going to ask you tonight. Who wins if I win? Who wins if you win? Who would be thrilled to see me succeed? What are your thoughts?

**AUDIENCE:** Your customers would be.

**BOB JONES:** OK, my customers. Let's elaborate on that. How would my customers help me win?

**AUDIENCE:** If you can to get 12 customers, then--

**BOB JONES:** Bring it a little closer.

**AUDIENCE:** --then that they talk to each other. They inform each other, hey, this is fun. [INAUDIBLE] So they're having fun.

**BOB JONES:** My customers become my sales force. You have a-- we've got we've got a victim-- a volunteer.

**AUDIENCE:** I think I'm loud.

**BOB JONES:** Yeah, but the problem is the people out there in Zoomland won't hear you.

**AUDIENCE:** My champions who would support me in-- so basically, like a sales force. She said the end users, but my champions and people who are paying, so economic buyers.

**BOB JONES:** Good. Good. Who else? Behind you.

**AUDIENCE:** I'm going to say maybe the government or public safety. So if you have older singles learning a guitar, they're not out marauding and rioting in the streets.

[LAUGHTER]

**BOB JONES:** That's a little harder sell.

[LAUGHTER]

How about music stores? Let's go back to this. Let's say that Trevor looks under his bed and pulls out an old Fender Stratocaster that he hasn't touched in 10 years, and he plays it a little bit. And he says, man, I'm really rusty. And speaking of rusty, these strings are so rusty, I'm going to need a tetanus shot if I play it much longer. So I'm going to go to a music store.

And he walks into a music store to buy strings. And he's looking up at the wall, and he's seeing all these guitars. And one of the helpful assistants comes over and says, you want to try one. And he says, no. I don't have any opportunities to play. And I've lost most of my chops, and I don't know how I'm going to get better. And the guy in the music store says, I got a guy that can help you.

So now we both win. Because he's going to come to my lessons. He's going to bring his beat up old guitar. He's going to listen to my new fancy guitar. He's going to say, my guitar sounds terrible. I've got to go back to the music store and buy a good one.

These are obviously analogies that I'm trying to draw here for you. But the concept, I hope, makes sense. And of course, church groups, Facebook groups, meetup. What we're trying to say is figure out who wants what you've got and will pay you for it? Who wins if you win? How do you find them? And how can you build collaborations that are to mutual benefit? So far, so good?

This one's hypothetical. I'm not moved to the Berkshires, and I'm not giving guitar lessons. But I will say your business might limp along, but it's not going to prosper until you figure out, what are you really selling? So what was I really selling in this guitar lesson example?

**AUDIENCE:** I heard romance.

**BOB JONES:** Sorry?

**AUDIENCE:** I heard romance. You're selling romance at one point.

**BOB JONES:** [LAUGHTER] Well, gee. I'm super fly here. I'm selling romance. Well, kind of. I mean, I'm selling comfort, socialization--

**AUDIENCE:** Purpose. Purpose.

**AUDIENCE:** Purpose.

**AUDIENCE:** Purpose.

**BOB JONES:** Yeah. Yeah, and collaboration, and I don't know. How many of you in this room play a musical instrument in an ensemble, ever? Yeah? I mean, it's pretty awesome. I mean, it's just-- there's something that happens.

Thursday night last week, I walked into a place west of here, a room I had never been in, an audience I had never seen before. It was a blues jam. And when the house band finished their gig, the guitar player came around and talked. Do you play guitar? I do. Do you sing? I do. How do you feel about being first up on stage? Big room, big stage, big lighting system. If I were prone to stage fright-- I said, I'm in. Let's do it.

I had to get up on stage with a couple people I had never seen before and perform for an audience. So I said, do you have people for me to play with? He said, yeah, I got [VOCALIZING]. I said, are they any good? He said, yeah. I said, let's do it. They were good. Magic happened. Magic happened. I mean, it was just-- [VOCALIZING].

So to some extent, what I'm selling is the excitement that you get when that collaboration happens. But also, I'm getting you out of your house, et cetera. So I'm selling some social component as well, and people are paying for it. How will I find them, and how will I make money? Very basic. Very important.

So some questions you should ask regarding your venture, and I'm going to repeat what Joe said. The questions are easy. The answers are not. But you will drive right into a pothole, you will disappear into a black hole, if you don't at least address some of these things. What's broke that you fix? Who specifically actually wants a solution? Are there enough of them?

I ran into one outfit that was trying to build a business, and they had a solution that about 12 people in North America would have paid for. It just wasn't enough. So will they spend money to solve their problem?

Well, I like working with startups. They won't spend any money to solve their problems for two reasons. One, founders think they know everything. And two, they don't have any money. So terrible audience.

How do I find them and let them know about us? How are they solving their problem now? And why will they think my solution is compellingly better than the alternatives? And who's going to pay me? Remember, it wasn't the kids. It was the parents, et cetera. Who's going to pay me? One slide on raising capital. We'll talk more about this next Tuesday night.

As Joe said, most investors lose most of their money. And so they come along and they say, well, you 10 people here in the fourth row back, you all have ideas. Statistically speaking, nine of you are going to fail.

Now, you're here at MIT. You're probably twice as smart as most people. So maybe only eight of you will fail. [LAUGHS] Still pretty bad odds. So I'm trying to figure out, where do I put my money?

Well, there's only one non-negotiable requirement. You have to have customers. You cannot negotiate away from that. You don't have to be smart. You don't have to have money. You don't have to be good-looking. If you have customers, people will think you're smart. You will make money. And of course, if you make enough money, people will think you're good-looking.

[LAUGHTER]

Sorry, that was a joke. So, do you have any? Do you even know you need them? How are you going to get them? All of those questions.

So most investors want to know the answer to two questions. How will you make money, and how will I make money? And if I don't get a good answer from you for question one, how will you make money, there's no point in asking the second question because I don't have a prayer of making money if you don't.

Enough of the abstract. Here's an example of something that I launched some years ago. I was in California, Orange County, where there is less than meets the eye. And I was running the clinical nutrition division of this medical company. We made IV fluids that we would sell to intensive care units. We'd make a liter of fluid for about \$3. We'd sell it for \$70. Pretty high-margin business.

The company had been doing \$200 million a year in revenue for 12 straight years. An entrepreneur came along, took them private in a leveraged buyout, Alex Brown and Company. Fired the senior managers. Brought in a bunch of people with a little more energy and said, here's a little stock for you. Here's a little stock for you and for you, et cetera.

We're all owners now. I want to kick this up 50% in three years and take it public. And then you can buy a boat. You can buy a house. You can buy that year-long vacation, et cetera. Quite motivating.

And I was running the division that made more than 100% of the gross profit for the company. But there were changes coming in the marketplace-- managed care, HMOs, et cetera. Looked like it was going to pull the rug out from under my highly profitable business.

So I went out in the marketplace and lifted the lids on the garbage cans and found what I thought was an opportunity. I found that nobody was doing it. That, by the way, should be a red flag.

So here's the background. It was in the kidney dialysis field. And at the time, there were 400,000 patients in the country who were lining up to have dialysis treatments, usually three times a week. And tragically, the market was growing rapidly. But if you were getting dialysis, you were going to one of the 2,300 dialysis centers in the country, all of which were listed in a federal document. So I could find you.

Physiologically, one of the important things your kidneys do is help you eliminate fluids. And if they don't work, you don't eliminate the fluids. And so you end up gaining 8 to 12 pounds between Monday and Wednesday. Part of what dialysis does, besides cleaning out the impurities, is brings out the extra fluid.

And due to other things that your kidneys do, you frequently are malnourished, at least clinically. And the usual answer was to give you a nutrition supplement. Think Insure or Boost. They're all liquids. Well, call me silly, but I looked at that and said, there's something wrong with this picture.

So we formulated a nutrition supplement that was high in what you needed and low in what you shouldn't have, and it didn't have any fluids. Essentially, candy bar, but it wasn't candy. We called it Regain.

So there was an obvious question. Does it work? And though we were not required to do clinical trials, as an ethical business, we did one. And we got it published in a prestigious peer-reviewed journal, which is the gold standard.

And the bottom line, it did work. It changed the blood chemistries, and it extended the lives of the patients. We said, well, let's do a little market research. We know these patients see doctors about their dialysis regimens. They see dietitians about their nutritional requirements. We know that they're opinion leaders in this business. Let's just go ask them, what do you think? Would you recommend it?

The answers were, yeah. Said, well, for how many of your patients would you recommend it? And they said all of them. How many days a week would you recommend that they take it for? Seven. Really?

How do you think it stacks up against the competition? They said, well, you really don't have any. Everybody else has got liquids. You don't. Well, how do you feel about \$3 a bar? It sounds good to me. We said, jeez. Did a little arithmetic, said I think we just replaced the business we were worried about losing.

So we did our market projections. We brought in the photographers and did the beauty shots of the product. We pulled together a commission plan, took it into the marketplace, and it was an absolute disaster. Came in at less than 10% of the forecast each month. So if the forecast was \$400,000 for the month, \$35,000. [WHISTLES]

So what did I do wrong? Here's where those of you holding the wireless microphones might get busy. What did I do wrong? This, by the way, did ruin a year of my life. I'll elaborate on it. Yes?

**AUDIENCE:** Did it taste bad?

**BOB JONES:** Did it taste bad? Well, we thought it tasted pretty good. That's a good question. It turns out when your kidneys fail, your palate shifts. And protein, of which there was a great deal in this product, tastes like spoiled meat. So we asked the wrong people, how does it taste? But that was only part of it. What else did we do wrong?

Well, come on, guys. My pedigree isn't terribly different from yours. I have some claims to at least a few functioning brain cells and some experience. And I worked very hard on this and fell flat on my face. There should be a lesson here for possibly you. What did I do wrong?

**AUDIENCE:** Not talking to the customers.

**BOB JONES:** Oh. I'm going to repeat that since you don't have a microphone. She said, not talking to the customers. You want to elaborate on that, or did you have a different answer?

**AUDIENCE:** I was going to say you didn't talk to the patients.

**BOB JONES:** We did not talk to the patients. Well, let's elaborate on that. You guys hacked into my computer, didn't you? We surveyed the clinicians, but the patients were buying this with their own money. We didn't survey them. Clinicians don't buy it. They don't eat it.

When we did finally talk to the patients, they didn't want it, and they couldn't afford it. Couldn't afford it, we kind of understood. Because if you're tethered to a machine for three or four hours at a time, a couple times a week, some well-intended social worker is going to come along and say, well, I'm going to get you on public assistance because you can't hold down a job with this. Now you're broke.

But why on Earth would they not want it? Because we had clear clinical evidence that it improved your health. Well, the answer that we should have-- I'm sorry-- the question we should have asked was, who gets kidney failure, our customer base.

33% of them get there from a lifetime of mismanaging their diabetes. 44% of them get there from a lifetime of mismanaging their high blood pressure. So 3/4 of my target customers had never taken care of themselves. They weren't going to start now. And if they had \$5, it would go toward beer and cigarettes. Not my product.

There was one other problem. They had to find someplace to buy it, and we had been selling to hospitals. And we failed to figure out that the retailers were also our customers.

So have you ever walked in and watched a pharmacist at work when their phone rings? It's usually something like this. Pharmacy. You have about 12 seconds to capture their attention. And if you ever want to see a pharmacy manager bust out laughing, say, I have a product you've never heard of from a company you've never done business with, and it's for sale for a group of patients who don't want it. But I'd like you to carry it.

The short answer is, fat chance, Bob. And I didn't know this. And one day one of these guys took pity on my poor self, and he hauled me out into the aisle, and he said, Bob, we essentially have linear shelf space. And on this foot of linear shelf space, I carry Crest toothpaste. And I have pretty sophisticated algorithms that are going to tell me how many dollars in revenue I'm going to get each month from this foot of shelf space.

Now, if I clear their product off and put your product on, I can't think of any reason why I ought to lose money. So get out your checkbook. This is called slotting fees, is you buy a slot on your shelf. You might call it extortion. Those fees are onerous.

When we were doing this some years ago for CVS, it was \$1 million a quarter, for starters. It was a guaranteed sale. That means if it didn't sell, they'd send it back to you for full refund. Plus, you had to fill every store in their chain with two samples of each SKU, Stock Keeping Unit, that they had. You have a question? All right.

**AUDIENCE:** That was not included in your price of your product?

**BOB JONES:** Take this man the microphone. I think the audience needs to hear this question. Go ahead, sir.

**AUDIENCE:** I guess that was not included in the price of your product.

**BOB JONES:** [LAUGHS] Well, you're right. In fact, I was completely clueless about this. The distribution channel I was used to was selling into hospital pharmacy-- I'm sorry-- into hospitals who had their own formulary, and there was a whole tap dance you had to do to get into that. But retail pharmacies was a distribution channel I knew nothing about. So we said, oh, my.

Well, we were on track to show Wall Street we were a good candidate for a public offering, and if we succeeded in going public, all that stock that the owner handed out would be worth something. My shortfall put that IPO at risk. That meant I was not that popular, and it just kept going on. And I would have to report my results.

And there are a few places in the country where you can fail with the venture. And people say, oh, yeah, I screwed up my first two or three. Come on in. But there's only a few. Most places in the country, they think if your venture failed, you are a failure. And by the way, failure is probably contagious. And if I spend time with you, I'll probably catch the failure bug, and I'll be a failure, too. So stay away from me.

It was a lonely time. I'm not trying to make you weep. I'm trying to say that the consequences of me not thinking this through just got worse and worse, went on for an entire year. Painful lesson.

So we learned about inside sales. We managed to find a way to get to the 25% of people who did not develop kidney failure through self-neglect. And we eventually found an outfit that catered specifically to that 25%.

We had a clinical trial. We were the crown jewel in their modest collection. We sold it. We got out of it for about \$1 more than we had spent in the business. And thankfully, I overachieved in my other responsibilities. And the company went public, and the stock turned out to be worth something. But it was just an awful year.

So just to show you or to demonstrate, I suppose, that entrepreneurship is a form of mental illness, I went off and did two more of these things, and they did a little bit better. And at some point, I got the attention of the docs who started the nutrition division at Harvard, even though I was in California.

And one day they called me up, and they asked me if I'd like to start a company with them. I said, no, absolutely not. There's nobody worse to start a company with than a bunch of doctors. And the smart doctors are the worst because they think because they're really good at something, they're really good at everything.

So I love you guys. I'll meet you in San Antonio at the conference a couple weeks. Wear your jeans. I'll buy you a taco and a tequila, but I'm not starting a company with you. They said, well, Bob, you need to be less ambiguous and tell us what you think.

Six months later, they call me back and said, we've raised some capital contingent on finding a CEO. Would you come to Boston, meet our investors? Long story short, we did it. So we selected diabetes as the field we would go into. How many of you know someone who has diabetes? It's everywhere.

Well, at the time, there were 10 million people who had been diagnosed. And the prevailing wisdom was that if you have it, you can manage it, but it'll never go away. There's some evidence these days that, in fact, if you take some drastic steps, you can reverse it. But at the time, this was the belief.

And the goal of managing your blood glucose was to keep it from not fluctuating wildly. So you wanted to restrict the bandwidth. And at that time, 4 million people used insulin to lower their blood sugar. And if they did it wrong, all 4 million of those people were at risk of their blood sugar going too low. So what happens in that case?

Well, the stuff that gets the publicity comes from having blood glucose that's too high. And it's the major cause of blindness, kidney failure, and peripheral neuropathy, which means they amputate your feet. Bad. But the other side of that coin is if your blood glucose goes too low and you faint. So if you're stuck in rush hour traffic, that's bad.

The real issue is what happens at night. Because people who tightly control their insulin and their blood glucose usually eat three small meals a day, eat three small snacks a day, regular small injections of insulin, and it keeps that bandwidth pretty moderated. But at night, nobody's going to wake themselves up two or three times in the course of the evening, eat a snack, inject some insulin, and go back to bed.

So the system breaks down because what usually happens is they eat a big nighttime snack, big bolus of insulin, and hope that the two will titrate through the evening. And it doesn't work because the food all turns into glucose at the same time. The spike is higher, but the horizontal axis is no wider.

Translation-- at 2:00 in the morning, the food has run out, and the insulin is still working. And that zone between 2:00 AM and 6:00 AM is when you're at risk of slipping from being hypoglycemic and asleep to slipping into a coma.

So who can tell us what a focus group is? You guys know what focus groups are? Well, I'll give you the quick and dirty. You assembled a bunch of people that you think are representative of your customers. You put them in a room with a professional moderator. You sit behind a one-way glass. Moderator asks some questions as to what do you think of this, and how much would you pay for it, et cetera.

And after three or four of these, I had a temper tantrum and came out from the other side of the-- and I said, you've spent 45 minutes listening to the science behind this product. Tell me, is there something that you really are afraid of? I'm done with the intellectual stuff. Let's talk emotions.

And they said, yeah. I don't sleep in a bed anymore because I'm afraid if I get too comfortable, I will never wake up. So that recliner in my living room, that's where I sleep. I'm afraid I will die in my sleep. Well, that's gripping.

So we invented a product which turned into glucose at different rates, the components. Lasts all night long. Being marketers at heart, we called it timed-release glucose. This time it did taste good. Thank you for that question.

We gave it a nonmedical name. Why did we do that? This is important. I was working hard with the FTC to be able to say, this is for people with diabetes and put that on the label, until I learned that that would have killed my business. Tell me why.

**AUDIENCE:** [INAUDIBLE] truth.

**BOB JONES:** Well, actually, that's a pretty good answer. I'll come back to it. Yes, sir.

**AUDIENCE:** If you classify it as a medication, you would probably not--

**BOB JONES:** Say that again.

**AUDIENCE:** If you classify it as a medication, you would probably not be able to stock it in as many retailers or certain types of retailers.

**BOB JONES:** Yeah. Yeah. We're getting warm. Got one more. Thank you, Janet.

**AUDIENCE:** There would be markets for [INAUDIBLE].

**BOB JONES:** OK, you're missing a target here. We're talking about consumers. Try?

**AUDIENCE:** My point would be like, why would you limit it to your customer base if you could have access to the full market?

**BOB JONES:** I'm looking at, the clock. So I'm going to save some time here. You want to try it, as long as you're next to the man with the microphone? Go closer.

**AUDIENCE:** [INAUDIBLE] for the consumer when purchasing the product versus and buying the medicine.

**BOB JONES:** The short answer. They said, Bob, it's nobody's business that I have diabetes. I'm not a diabetic. I'm a banker. I'm a lawyer. I'm an entrepreneur. It's nobody's business.

You have migraines. Your elbows hurt when you get up in the morning. Who cares? It's nobody's business. And if I pull out something that looks like medicine, that's for people who are sick. I'm not sick. I'm an active professional. And if I have to pull it out in a meeting that's gone on too long and I've missed a meal, and I'm starting to feel a little woozy, I don't want them thinking I'm medicating because then they will think I am frail. And that is a career-limiting move.

I said, well, what should it look like? He said, make it look like something that, I don't know, an elite athlete would consume. Maybe marathon runners. I said, timed-release release glucose. And in fact, we did end up selling some to marathon runners who said, I'm out there running for four hours. I could use some timed-release glucose.

So this turned out to be important. There's a lesson out of this, which I will come to in a couple of minutes, as to the importance of actually talking to the people who are going to buy your product. So stop with the social media beyond a certain point.

So we engaged this time not only clinicians, but also parents and patients in formulating the product. We discovered that it should be 100 calories with little striations, so that if you had a small child, you'd give them 50 calories worth. And if you had a large grown-up and they needed 150, it could be 1 and 1/2 bars, et cetera. We made it convenient.

We talked to them. We said-- this was actually kind of fun. In one of these focus groups, we said, we've put paper and pencils in front of you. Write down-- don't say it because I don't want you influencing him. Write down where you would expect to buy a product like this and how much you would expect to pay for it.

Two piles-- grocery store, \$0.49. Pharmacy, dollar and a quarter. \$0.49 cents, dollar and a quarter-- same product. Distribution channel influenced the customer's perspective of the value. Said well, call me silly. I like pharmacies, despite all that stuff about slotting fees.

We found an ad agency that knew the field. We produced ads that were better, and we started running those ads. And we started getting 100 calls a day. We were over at 238 Main Street, by the way, with about two or three other companies. You remember those days.

So at 100 calls a day, we said, jeez, we need more phones. 200 calls a day, we started going out into Kendall Square and saying, may I see your wrist, please? OK. You have a pulse. Would you a job?

[LAUGHTER]

I mean, it wasn't quite that bad, but darn near. We said, well, there's more geniuses per square foot here than most places. We can get people to answer the phone and talk to customers. 300 calls a day, we said, God. We've got to upgrade our database. 500 calls a day, we said, I think we're on to something. I think we have found a need.

We brought in an inside sales force. And to skip to the end of the story, we ended up in every major pharmacy chain in the country and paid zero in slotting fees, which had never been done before. And so if you dig deeply, you will find that we are an obscure Harvard Business School case study because nobody had done this. The lesson-- understanding our customers helped us invent a better product and build a successful business.

So I think there's some magic in how we actually reached our customers, and it's worth a little bit of a dive. The title of this course is not the theory of new ventures. It's the nuts and bolts of new ventures. So let's look at the nuts and bolts.

We said, well, let's be honest. A fair number of people who have diabetes do not take care of themselves and don't spend money to take care of themselves. And it's a waste of our time and effort to try and convert them. How do we find the ones who are spending money to take care of themselves?

And the answer is there's a credentialed medical professional out there called a certified diabetes educator. This is something that you pick up usually after being a pharmacist or a dietitian. They accumulate around the major Metropolitan areas. They have an association. Surprisingly enough, it's called the American Association of Diabetes Educators.

You go on that association site, and you click the tab, locate a CDE. And you type in 02478 or whatever and the zip code, and out comes a list with all the contact data. So we could find them. And so, well, how about that? What do they worry about, and how can we help them address their worries? Hold that thought. But eventually, we had several thousand highly credentialed health care professionals working as our sales force for free. Not a bad stunt.

So back to who wins if you win, and who would want you to win? So-- oops, sorry. About 12,000 of these educators were members of the AADE. Most of them would have a meeting one Saturday a month, Saturday morning, 9:00 to noon.

They would bring in all their patients. They'd talk about new developments. Sometimes they'd have samples to pass out. They'd say, congratulations, you're doing great. Gee, you better be careful. You're starting to slip up. You're at risk. And they'd bring everybody in.

Everybody who ever has a job like that is always starved for content. What are we going to talk about for the next meeting? But we called them up. And we said, what's your greatest professional frustration? And their answer-- This is not promising. Yes, sir.

**AUDIENCE:** I imagine they got pretty frustrated with their patients if they're not taking care of themselves. So maybe there's a solution out there and they'd be interested.

**BOB JONES:** I tell them what to do, and they don't do it. The medical term for which is patient compliance. I tell them what to do, and they don't do it. That's my biggest-- never said a word about I don't make enough money. My husband doesn't understand me, any of that stuff. I tell them what to do, and they don't do it.

And we said, well, what if we told you we had something invented by a bunch of snotty doctors at Harvard Med school? That's probably redundant. It tastes great. It works great. And your patients will thank you for telling them about it. How would you feel about that? And they said oh, my God. I'd shout it from the rooftops.

So we ended up with a high-quality sales force for free. Now, these people would have been insulted if we had offered to pay them because they're healers. What we did was we gave them what they wanted, which was something that their patients would comply with.

And so we said, hmm. Is there any chance that you might call the pharmacists on our behalf and get them to stock our product? And they said, are you kidding? I sent a lot of patients to that bozo. If I like your stuff, you got a deal. We said, well, maybe the pharmacist wouldn't mention slotting fees.

OK, quick word about the importance of people with diabetes to retail pharmacists. You and I go to our pharmacy, and we buy toothpaste and a greeting card. But if we have diabetes, we also buy insulin, blood glucose monitors, testing strips, et cetera. We are worth way more than the ones who are normal retail consumers. These are high-value customers. So hold that thought.

So our initial sales model was our sales force would call the educators. The educators would talk to the patients. Patients would buy it from us for a while. We made no money on this because we were shipping it out of our office. I didn't care. What I wanted to know was how often did they reorder it, and therefore could I impute usage rates?

But we knew that if we could get to the retailers, if the educators would call the retailer, and then the patient would go to the retailer, and then we'd call the retailer, we'd make more money. So we changed the definition of our customer. So how did we do that?

Well, we got all these calls. We ran these ads. We made a mistake in one of the ads and said something about, it tastes a lot like a fudge brownie. And call this number, and you'll get a free sample. And somehow that got on the list that said, these guys are giving away free fudge brownies.

So we got a deluge of phone calls from people who were totally inappropriate to us. So we asked some qualifying questions like, tell us the brand of insulin you're using. And if they said, huh? We said, sorry, we're not for you.

But qualifying questions, we got the right answer. We'd say, great. We'll send you a free sample. We'd send them a week's supply. We'd call them up. Did you get it? Because just because we sent it doesn't mean you got it. So did you get it? Yep.

Here's a marketing question for you. Who knows what the difference between an open-ended question and a closed-ended question is? Yeah? Great. Thank you.

**AUDIENCE:** A closed-ended question can be answered yes or no.

**BOB JONES:** Closed-ended question can be answered yes or no. So our sales force learned very quickly that if they said, did you like it, and they said, no. It's like, well, where do you go from here?

An open-ended question is, well, what did you think? And they'd say, well, I didn't really like the taste that much. You'd say, OK. What else? Well, it worked great. OK. What else? I'd like to order some more. Open-ended questions, so we asked them.

And we'd say, well, for a limited time, we'll pay for the shipping. I lost my shorts doing this-- that's a technical term-- doing this, but I wanted the information. So would you care to reorder? Yes, indeed. And aren't you about out?

And then one day we said, we're done with the free shipping. You can either pay the shipping, which is expensive, or it might be more convenient for you to buy it where you buy your insulin. Where would that be? And they'd say, well, that's Janet's Pharmacy.

Well, gosh. Do you mind if I call Janet? No. No. This is Mabel. Tell them Mabel's been buying from her for 27 years. And I'm coming in, and I want to buy this product. And if she doesn't have it, by God, I'm going to be mad. OK, Mabel.

So remember the 12 seconds? Pharmacy? I'd say we have a diabetes product that your patients have been asking for, and you don't carry it. I'm calling to fix that. What? Who is this? So permission to continue in sales parlance.

So we'd walk them through the story. And they would say, well, I can't do something like this without corporate approval. We're a Walgreens. I say, I know. But I'm betting there's a number below which you can buy without corporate approval, and I'm guessing it's \$100. Well, yeah. That's right.

Well, you'll be pleased to know that our starter kit is 99.95.

[LAUGHTER] And by the way, if it doesn't sell, you don't have to ship it back to us. We'll take your word for it. Throw it in the trash. We'll send you a refund. This is no risk. And they'd say, OK, I'll need a purchase order. And we'd ship it.

And we'd call them up a few days later. But first we would call our customers and say Janet's stocking and the product. Go in there and get it. Then we'd call the pharmacy. We'd call Janet and say, Janet, I'm just checking to make sure you got that stuff. And she'd say, well, hold on, let me check. Oh, my God. It's already sold out. I say, well, imagine that. Wouldn't you like a reorder?

Well, pretty soon, we ended up at corporate headquarters saying, I got half a dozen of these pharmacies buying this stuff. Who are you guys? Nobody ever mentioned slotting fees. Because what I did was buy a bunch of customers and sold the customers to the retailers.

Next step. Who knows what an SKU is?

**AUDIENCE:** Stock-keeping unit.

**BOB JONES:** Stock-keeping unit. So if you walk into a CVS, and you look at all the things that are lined up, they have about 8,000 SKUs in the average CVS. They do not want 8,000 invoices. So they go through a wholesaler who buys all this stuff, puts them in a big Tupperware container, shows up in a big truck at 11:00 at night, stocks the shelves, sends them one invoice. That's what wholesalers do.

And we said, you know, if we could get into wholesalers, my goodness, we'd make a lot of money. Might be time to change our customer definition again. So how do we do that?

Well, if you think a pharmacy manager doesn't care that much about the health of his customers, wait until you talk to a wholesaler. So we pulled off a bit of a stunt. We signed up to go to a trade show in New Orleans that was going to be attended largely by consumers who had diabetes. And I said, find me the 25 pharmacies that are closest geographically to the convention center.

And we called each of them up, and said, we're going to be in the convention center for these three days. We're going to be handing out samples of a product that's for your patients with diabetes. And our track record is that people like it. They buy it a lot. And they're going to want to come buy it from you, and you don't have it.

I don't want you to be embarrassed. I don't want our new friends to be frustrated. I'd like to send you this stuff. And they said, OK.

Then I called the wholesalers and said, you don't know me, but I've just sent our product to 25 of your pharmacies at no cost to you. And in fact, I'm going to make it better than that. Your margin is usually about this much per six-pack. I'm going to send that money to you.

What I want is to be in your system, so that when these 25 pharmacies decide it's time to reorder, I can say, McKesson's got your stuff. We're in McKesson's system. They said, well, OK. So I do nothing. You send me a check, and all I do is put it in the system. I said, deal. That's it. OK, you're on. Boom. We're in the wholesalers.

One more quick anecdote. You guys know what a planogram is? Normal people don't know this. You ever notice when you walk into a Walgreens or CVS, that just about every store has the same arrangement? They have the really cheap toothpaste down here, and the more expensive stuff at eye level.

There are a lot of very sophisticated algorithms that go into planning that shelf space utilization. If you ever have the misfortune to go to Bentonville and deal with Walmart, their test kitchens, if you will, for planograms, it's like a whole block. I mean, it's a big deal.

One day we got a letter with a stamp on it from a major retail chain headquartered in Florida. And they said, if you want to be in our planogram for the coming year, come to this meeting in Clearwater on either of these two dates for a 15-minute meeting.

So I called around. I said, what's up with this? And they said, well, the guy you're going to meet with has a job that you don't ever want. He's got to sit there for an entire week listening to 1 15-minute presentation after another from people who are practically foaming at the mouth to get on his shelves. I said, oh, God. How is he evaluated?

Well, he's evaluated on how much slotting fees he can extort from each of these vendors that are coming in. How much will you pay me to be on these shelves? I thought, well, this isn't actually a decision for us because we don't have any money. But I'm feeling pugnacious. Let's go to the meeting.

Well, the lobby looked like Cirque Du Soleil. I mean, there were people in there with these mocked-up end caps, and people coming in saying, I'll pick up your dry cleaning for the rest of your life. I mean, whatever it takes. And we're just sitting there, the two of us. We had a briefcase.

So when our time came, we sat down opposite Jeff. And we said, Jeff, this isn't going to be like any other 15-minute meeting you have this week, because we don't have any money, and we're not going to give you a dime. But we're going to take five minutes and tell you who we are, five minutes and tell you why the product is really good, and five minutes telling you why you want us anyway.

Jeff said, well, it's been kind of a hard week. It's your 15 minutes, sport. Knock yourself out, [LAUGHS] literally. So the first five minutes and the second five minutes, we did all this stuff about how smart and fabulous we are, and how wonderful and fabulous our product was.

And for the last five minutes, we opened the briefcase, and we started pulling out printouts. We said, these are the customers that we've been selling our product to in the states where you have pharmacies. There's 10,000 of them-- 10,000 customers with diabetes.

And we're tired of being in the shipping business, so we're getting out of it. And all of these customers have one question. Which pharmacy can I go to to buy your product? So, Jeff, how would you like us to answer their question?

Now, it takes a lot of self-discipline to not say anything after you do something like that. There's kind of a rule of thumb in negotiating that the next person who speaks loses. So we pulled out the duct tape for a minute. And if you don't think that's a long time, hold your breath. The end of the minute, he said, all right, you're in. Big dinner for us that night.

So what we had-- customers. So we had an impressive growth in sales. Monsanto, at one point, when they were in the food business and not in the pesticide business, did an exhaustive survey and found that our reuse rate was slightly over 300 occasions per year.

Most consumer products company, people who make cereals, they will swoon if you use their stuff once a week. So these reorder numbers were astonishing. We got a lot of publicity. We ended up selling the company to a billion dollar pharmaceutical firm in Costa Mesa, California. Could have been worse.

So some of these experiences were painful. I've learned some lessons. I'm sure there's some things-- like Joe said, sometimes the problems come dressed in different clothes. You don't always recognize them when you see them again. Help me out here because I am still in the game.

What should I have learned from these experiences to help me build my next business? We need a microphone. Mumbling won't do at this point.

**AUDIENCE:** Talk to your customers.

**BOB JONES:** Talk to your customers. Well, that's a good one.

**AUDIENCE:** Be open to redefine who your customer is.

**BOB JONES:** Oh, yeah. As your business evolves, your customer definition may need to evolve. That's a good one. Thank you. I was wondering when you guys were going to wake up. I saw you getting a little glassy-eyed up there.

**AUDIENCE:** Avoid slotting fees at all cost.

**BOB JONES:** Avoid who at all times?

**AUDIENCE:** Slotting fees at all cost.

**BOB JONES:** Yes. Slotting fees are less ubiquitous than they were because Amazon is kind come along, and you can say-- by the way, getting into Amazon is not easy. I mean, for all that they're wonderful to buy from, they're terrible to sell to. They classified one nutrition product that I launched as a hazardous material and started sending it. Anyway, different story, but incredibly messed up. What else?

**AUDIENCE:** Be willing to lose some of the profits in order to [INAUDIBLE] products.

**BOB JONES:** Let me rephrase that. In the early days, it might be worthwhile reinvesting some of your earnings into additional market and customer knowledge. Fair enough? Yes, sir.

**AUDIENCE:** Understand all possible distribution routes between you and the end user ahead of time, and do your homework.

**BOB JONES:** Yeah. Distribution affects your ability to grow a company. It's rarely thought about in the early days. Let me offer a couple. Figure out what they're really buying. So think about that a little bit.

If you think your AI-enhanced whatever it is you're working on is for everyone, I'm here to tell you, no, it's for no one. You have to have positioning. You have to be specific.

People make jokes about you can't sell air. Well, yeah, you can. If they're scuba divers out there, they'll pay for air. Do you own a car? Does it have tires? Do you ever have to go throw quarters in that machine? And you've just bought air. Positioning-- everything.

Nobody needs your product or service. Please don't burst into tears. I don't actually need these glasses. What I need is to see better, so I hired glasses. Some of you hired contact lenses. And I bet some of you know somebody who hired the LASIK surgeon to do that little deal. All of us want the same thing, which is to see better. But we don't specifically want the product, and nobody specifically wants your product. They want the benefits.

What's market segmentation? I heard you. Do you have an answer? No? OK. It's customary in the consumer world and less common, but still everywhere else, to say, well, if we're not going to chase everybody, let's divide the market up into segments. What do you think are the usual segments?

**AUDIENCE:** [INAUDIBLE].

**BOB JONES:** Closed captioning for the hearing impaired.

**AUDIENCE:** [INAUDIBLE] in those subcategories of customers that are in industries [INAUDIBLE].

**BOB JONES:** And? Thank you. And?

**AUDIENCE:** [INAUDIBLE] people who know what the product is in marketing, that is [INAUDIBLE] want to test the product as soon as possible [INAUDIBLE]?

**BOB JONES:** Well, sometimes people segment by geography. That's right. I sell surfboards for people who ride really big waves, and the really big waves are in Portugal, for example. Most common ways of segmenting a market are by income and frequently by gender.

And so it's not uncommon at all to say, we want women shoppers in households that earn between \$60,000 and \$90,000 a year because they think that's a target-rich environment. I will argue that for you as entrepreneurs, that's wrong. This is not the Oracle speaking, but it's my opinion, that really what you need to do is segment by who is most motivated to spend money on your product.

So let's say you and I have invented something that helps people not have their second heart attack. So if you had your first heart attack and you live through it, because if you didn't, you're not our customer, you're feeling the pain right now. You say, I don't ever want to do that again. You're at the top of the motivation pile.

If I'm your brother, I end up thinking, jeez. We kind of have the same DNA, and I should be paying attention to this. Maybe I should look at this. It might be people down the street saying, we all eat in the same place, and we're part of the same pickleball club or whatever it is. We'll pay attention.

Many marketers are seduced by this big block down here because they say it's just dumb not to go where all the business is. My reaction is nuh-uh. That's a graveyard. Because for our product, those are college kids who don't have the slightest concern about having their second heart attack. So forget it.

As a startup with limited resources, you can't go there. You need to really focus and start there. And if there's one slide from tonight that I hope you will remember, that's it. Divide your market up by who wants it, and go after the ones who want it the most.

If you want to change people's buying habits, takes a lot of motivation. Pain is pretty motivating-- greed, fear, vanity. But if you're selling virtue, that's a tough sell. And when I was selling Regain, the patients didn't feel any better. What would happen was every six months, the doc would say, nice going. Your blood chemistries are improved.

When I was selling Night Bite, people would call me in the morning and say, I think it worked. I said, did you wake up dead? No. It worked. So there was feedback. It changed the way they felt. Sorry I'm being a little facetious. But the point is, figure out who wants your offering. Not everybody. Who wants it? Find them. Tell them about it. Take their order.

I love marketing. I have huge respect for marketers. There's all kinds of mechanics, multivariate factor analysis, et cetera that go into marketing. I'm going to save you two years of graduate school and two bullet points for marketing.

Find out what your customers want. Obviously, there are a lot of sophisticated mechanics associated with doing that. But if you dig into the mechanics and overlook these, I fear for you.

So in fact, what we're trying to do is find our customers. We're not putting ads on the sides of buses for everybody because we're entrepreneurs. And the words "startup" and "undercapitalized" are synonymous. So use your money wisely at the top of that pyramid.

Let me tell you one real quick story. A couple of us invented a product-- 2 1/2 ounce drink, helps you sleep at night. And we said, well, we have to put packaging around it. Who's this for?

And we did-- this was stupid. We should not have done it. But we did a top-down analysis. And we said our market is working moms because they're overworked, they're overscheduled, they're overcaffeinated, and they're fussy shoppers. And we've got something that has a near pharmaceutical effect just from food ingredients.

So we rented a list of 100,000 moms who met these criteria, shopped at Whole Foods, all that stuff, and gave permission to get this kind of mailing. And we heard crickets. It was like nobody replied.

After a while, there were a few who replied, and they ordered, and they reordered, and they reordered. And because we were shipping it out of our office, we had their contact data. I called them up.

Hello, I'm Bob. I'm the CEO of this organization that you've been buying product from, I love you. Why are you buying our stuff? And the answer in every case was I run marathons, and I can't train hard if I can't recover. And better sleep helps me recover.

Translation-- I do a better job running my marathons when I buy your product. I thought-- I thought I was selling sensitivity and products made with love and all this. I'm selling to warriors. Totally wrong. I would have died of old age before I smoked that out from a series of Google ads. Talk to them.

That's self-evident. We've already covered that. Oh, you poor things. You're going to see me again next Tuesday night. Then we're going to talk about how you pitch your business. And I'm going to invite some brave volunteers to come up here with mics and pitch to you.

And I submit a little piece of homework. Those of you who are prepared will do better at this than those of you who are not. Work on how you're going to pitch your idea in three minutes. We'll give you three minutes.

Our TAs have agreed that they will time you. Bang on a garbage can lid when your time is up, so you can't talk over them. The audience will give you feedback. It's an awesome opportunity to get feedback in an arena that's safe.

Then I'm going to ask if you can do it in 30 seconds-- way harder. And I'm on a tear now with some of the people I'm working with-- three sentences-- tens seconds. It's like boiling the ocean. If you can do that-- what was the line from *Karate Kid*? "Man who catch fly with chopsticks can do anything." If you can do this in ten seconds, three sentences, you can do anything.