Nuts and Bolts of New Ventures

Finding your customer
(Great technology is not enough…)

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Agenda:

- Introduction: tell me what you’re working on
- I’ll try to provide a few hot tips to
  - Find your customers
  - Succeed with your business
- Two examples of product launches
- Lessons
  - That you’ve learned
  - That I hope I’ve learned
- Your turn; Conclusion
My background

- CEO – Scientific Nutrition Products, Inc.
- Principal at Scientia Advisors – management consulting
- CEO of Vitasoy USA (turn-around)
- Founder & CEO: three medical companies
- Executive positions at Baxter, Abbott, other companies
- Princeton, MIT Sloan
Two success strategies

Cost leader
Aggressively cut costs

Innovator
Focus on building brand

How is your end-user dissatisfied?

Opportunity
YOUR BUSINESS WILL NOT PROSPER UNTIL YOU KNOW:

What am I really selling?

Who wants that?

How do I find them?
How does that affect raising capital?

- A standard concern for investors: FEAR that you will lose the money
- Primary goal: determining if you have a chance of succeeding with your business
- Non-negotiable requirement: CUSTOMERS
- Therefore:
  - Do you have any customers? Will you have any? Do you even know that you need them?
  - How will you get them? How much is each worth? How many do you need? How long will it take you to get them?
Two descriptors you want

MIT decals → for proud parents → for scuba divers

important

unique
The point:

- Figure out **who** will find your offering to be both important and unique (or at least, better…)
- Figure out how to find them, tell them about your offering
- Take their order

- What if you can’t meet those first two requirements?

(Hint: what kind of fish is this?)
Example #1: Regain®

Nutrition supplement for patients with renal failure
Background

- I was running the clinical nutrition division of a California medical company
  - $300MM company, on track to go public ➔ we’d all make $$$
  - Nutrition division was very profitable business

- Saw impending market changes ➔ my business would go away ➔ threatened our ability to go public (oops…)
- I wanted (and needed) to explore new opportunity
- Potential re-positioning of corporation
- First in country to do this ➔ no model for success existed
The market/customer need

- 400,000 dialysis patients, rapidly growing market; it was easy to locate both the patients & the caregivers
- Patients were generally fluid-restricted, clinically malnourished, need life-long nutrition supplementation
- All existing nutrition supplements were liquids ➔ obviously bad for fluid-restricted customers
- We had the technology to formulate a nutrition supplement that met customers’ specific needs without fluid—a food bar: Regain™
Clinical question: does it work?

- Ran clinical trial (even though it was not required for non-Rx products)

- Got results published in *Annals of the National Kidney Foundation* (peer-reviewed, prestigious)

- Bottom line: solid scientific support → product measurably improves patient health
Our business planning

- Dialysis patients see a doctor re: dialysis regimens, and see a dietitian re: their nutritional requirements
- Our market research – ask the opinion leaders:
  - Renal physicians: would you recommend?
  - Renal dietitians: would you recommend?
- Competitive analysis: all competing products are liquids, ours is the only entrant with no fluids
- Market projections: big business opportunity — revenue forecast for corporation — exciting!
- Product launch: developed marketing materials, trained sales force, made product, went to market
The result: DISASTER

- Sales < 10% of forecast
Why?

- We surveyed the clinicians, but:
  - they don’t buy it
  - they don’t eat it

- When we finally talked to the patients
  - they didn’t want it
  - they couldn’t afford it

- Retailers: won’t carry it
How did this affect me and my job?

- Our company was on track to show Wall Street that we were a good candidate for a public offering
- IPO ➔ My colleagues and I would own stock worth significant $$$
- My shortfall put the IPO at risk
- Monthly senior management meetings
  - Had to report my results to my colleagues on senior management team
  - Embarrassing (to say the least)
- This was like a slow-motion train wreck: it just got worse and worse
- And it went on for an entire year…
What we did about it

- Learned about inside sales
- Learned about local patient publications
- Got Medicaid reimbursement: 40 states
- Felt really bad
- Sold the business
Example #2: NiteBite®

Timed-release glucose bar™
for the nutritional management of hypoglycemia
New company, new product

- Moved to Boston, launched new company with Harvard scientists
- Triaged their current projects, developed a business plan (ahem…)
- “Let’s develop/sell product in a field that’s big enough to get noticed, small enough that we can handle it”
- Selected diabetes as field, based on an intuition about something the customers needed and weren’t getting
The market/customer need (then)

- 10 million diagnosed people with diabetes; chronic disease ➔ manageable but incurable
- Goal of management: keep blood sugar from being too high or too low
- 4 million used insulin to lower their blood sugar
- All insulin-using diabetics are at risk of hypoglycemia: blood sugar goes too low
Medical background

- Hyperglycemia: major cause of retinopathy, nephropathy, neuropathy
- “Tight control” dramatically reduces incidence of high blood glucose (hyperglycemia)
- But with tight control, the incidence of hypoglycemia (low blood glucose) triples
- Hypoglycemia: must be treated right away, leads to fainting, can lead to coma
Hypoglycemia at night

- Insulin users typically eat a night-time snack
- Very important: prevent hypoglycemia without causing hyperglycemia
- Consequence: constant anxiety trying to manage evening regimens of insulin & night-time snack
- Greatest fear: “...dying in my sleep”
Our answer: NiteBite®
*Timed-release glucose bar*
for the nutritional management of hypoglycemia

- Patented formulation: nutrients that turn to glucose at different rates: called it “timed-release glucose”
- Designed to lower incidence of hypoglycemia without causing hyperglycemia
- Tasty; non-medical name, packaging (Why?)
- Looks like “energy bar” rather than “medicine”
Our business planning

- We engaged clinicians, parents and patients in product formulation
- Held focus groups with prospective customers: fears, concerns, price, distribution points, clinical contacts
- Went to support group meetings
- Picked ad agency ➔ knew diabetes ➔ instead of hypodermic needles, our first ad featured flying pigs
The results: very exciting

- Ran ads:
  - At 100 calls/day, we got more phones
  - At 200 calls/day, hired more sales staff to answer the phones
  - At 300 calls/day, installed a database to track all these people
  - At 500 calls/day, rented tables & chairs to hold the extra computers, started training our new staff ➔ we might be onto something

- Hired/trained inside sales force

- Penetrated all major pharmacy chains & were stocked in all major wholesalers without ever paying slotting fees (very difficult)

- The lesson: understanding our customer helped us invent a better product and build a successful business
How we reached our consumers

Questions we asked about our target consumers:
- Where do they look for advice? What do they read? Who do they believe?
- Where do they spend their money to address this problem?

The best answer: Certified Diabetes Educators
- Learned about the AADE, learned about “locate an Educator”
- What do the CDEs worry about? How can we help?

What we did
- Hired team for Inside Sales, trained, monitored and paid them
- Eventually: several thousand advocates working on our behalf
The Selling Flow Chart

Inside Sales Force → Diabetes Educators → Patients

Retailers
Getting into retail channels, 1

- Our ads generated incoming calls from consumers:
  - Qualifying questions
  - Right answer → free sample

- Follow up with consumers:
  - Did you get our product? Your reaction? Open-ended questions…
  - For a limited time: free shipping – would you care to order?
  - Then: aren’t you about out? Time to re-order?
Getting into retail channels, 2

- The close (consumer):
  - No more free shipping ➔ Would you like to buy NiteBite where you buy your insulin?
  - Where’s that? May I call them?

- The close (pharmacy):
  - “Your customers want our product & you don’t have it”
  - “What can we do about that?”
  - We took their initial order ➔ re-orders at larger volumes

- No one ever mentioned “slotting fees”

- What gave us that negotiating power?
Leveraging experts (for free)

*Who influences your customers? What do they care about?*

- **Background: Certified Diabetes Educators**
  - 15,000 in the USA; 12,000 are members of the AADE
  - Many hold monthly meetings with patients → always need new content
  - CDE’s biggest concern: “patient compliance”
- Us → CDE [“it works, and your patients will love it”] → patients → high-quality sales force for free
- CDE → pharmacists (retailers!) re: patients
- Pharmacists would agree to take the product
- No mention of “slotting fees”
- What gave us that negotiating power?
The Selling Flow Chart, revised

- Inside Sales Force
- Diabetes Educators
- Patients
- Retailers
- WHOLESALERS
Turning up the heat...

- Wholesalers [what do they care about?]
  - New Orleans trade show ➔ 25 drug stores ➔ called their wholesaler
  - “You don’t know me, but I’ve sold ‘em and built in a profit for you”
  - Put us in your system & take the money ➔ no work for you
  - Now we could tell pharmacists, “Your wholesaler stocks our product.”

- Major chain stores [what do they care about?]
  - Clearwater, FL meeting to discuss slotting & slotting fees
  - “How would you like us to answer their question?”

- No mention of “slotting fees”
- What gave us that negotiating power?
Results, in conclusion

- Impressive growth in sales
- Extraordinarily high reorder rate
- Got a great deal of publicity
- Got numerous offers to buy business, sold to $1B pharmaceutical firm
Conclusions

Lessons and questions
Lessons

I’ve learned a lot of lessons from my (sometimes painful) experiences

Help me summarize them

What should I have learned from these experiences that might be relevant to building my next sales model?
Lessons I hope I’ve learned

- Know your customers intimately: what are they **really** buying?
- Products which are “for everyone” aren’t for anyone ➔ positioning is imperative (“air for scuba divers…”)
- Face it: no one needs your product or service (I don’t need these glasses…)
- They **might** need its benefits ➔ sell the benefits first, then the “reason to believe”
My view: market segmentation

- Feeling the pain now
- Worried
- Vigilant
- Forget it

Motivation

Start here
Changing buying habits

- For consumers to change their buying habits requires a LOT of motivation
- Powerful motivators include:
  - Pain
  - Fear
  - Greed
  - Vanity
- Virtue is a tough sell
- What was I really selling with Regain? With NiteBite?
Power marketing: in two easy steps

- Find out what your customers want
- Give it to them
FOCUS: imperative in new firm

- Pick 1-3 well-defined market segments that you can dominate

- Succeed in those niches and get to critical mass

- Corny but true: “There is no hocus-pocus that takes the place of focus.”
A different way of looking at this

*It’s not sales, it’s forensics…*

- Instead of “promoting your product,” it’s “finding your customer”
- Customers “hire” products to do a job
- Design your products to do a specific job for a specific kind of customer
- Then go find those customers
- If you’ve done this right, the selling will be easy
Ways to do that:

- TALK with your prospective customers – there’s only so much you can glean from reports
  - Interviews, focus groups, mall intercepts
  - Telephone calls, consumer hotlines, user groups
- KNOW them: how do they view their problem?
  - What are they buying now to solve the problem?
  - What do they read? To whom do they go for advice? Who are their influencers?
- Understand what’s behind what they’re asking for (Henry Ford quote)
You **do** have competition

- If customers aren’t spending money now to solve the problem you are addressing, it’s not a problem
- Whatever they’re buying now is your competition
- How is your solution **better** in the eyes of your customer?

Customers buy VALUE
More lessons re: building the sales model

- Even if customers need your product or service, if they don’t **want** it, you can’t sell it.
- In the early stages, it doesn’t matter who needs it—the only thing that matters is who **wants** it.
- If you can’t find your customers, you can’t sell your product.
- If you can’t communicate your product benefits within seconds, you can’t sell it (Oops…).
Acid test: the 30-second sell

- If you can’t tell your story to a customer in 30 seconds or less, you’re in trouble
  - You need focus to create brochures, collateral material
  - Your idea may not have real benefits to your customers (or you may not understand them)
- If you can’t summarize your story for an investor in 30 seconds or less, you’re unlikely to raise any money
- Remember: customers buy BENEFITS. Tell us the benefit of your idea/product/service.
- This takes more work than you’d think…
Sales-related questions you should ask

- What’s broke that my product fixes?
- Who cares? That is, who is trying to fix that problem? How many of them are there?
- Do they have any money?
- How do I find them?
- How are they solving the problem now?
- Why is my solution compellingly better than what they’ve been doing?
Crafting the 30-second sell

- Let’s try this process now…
- Tell us about your business idea
  - Let’s ask a few questions
  - Let’s try to create a quick summary of the target customer and the benefits to those customers
- Who’d like to get the benefit of our collective wisdom?
Lean start-ups and the “Minimum Viable Product”

Develop the ideas
- Identify unmet needs
- Interview potential consumers, influencers, retailers
- Pick one

Minimum Viable Product
- Efficacy first
- Minimal packaging
- Minimal attention to taste, etc.

Create the customers
- Branding, packaging
- Go to market
- Ramp up hiring & spending
- Confirm: re-orders

Grow the company
- Build staff
- Become profitable & self-sustaining
- Position for acquisition

Goal: identify customers for launch
What I’m doing now

Practicing what I’m preaching…
Three key criteria for building this venture

*This idea meets all three of these critical criteria*

**The Right Problem**

The customer or consumer will happily pay to solve this problem

- Lowering cholesterol: No
- Back pain: Yes

**The Right Solution**

We can deliver a scientifically sound solution in a way that brings the customer back for re-orders

**Acquisition**

Several companies will say they’d like to discuss buying the company if we successfully solve the problem

**Commercial success**

A scalable, protectable solution that matches my skills

**Successful exit**
Food for Sleep
A science-based recipe

- Start-up
- We’ve made a 2½ oz. beverage to help you sleep
- Made MVP, ran market test, revised go-to-market plan
- Initial target audience: Working Moms
- Reaching via “mommy bloggers,” Google AdWords, Facebook & other social media routes
- Initial distribution via Amazon (and us), then retail outlets
- We’re staying in touch with prospective acquirers
- Wish us luck…
Resuming…
Final questions

- Where do my customers go for help/advice re: this problem? **Exactly** how will I reach them?
- Who will be my first customer? Paint a picture of the **typical** customer
- What evidence do I have that they will be willing to pay for my product?
- How much will they pay?
- Where will they buy my product?
- Who is responsible for sales?
Your turn

Questions?
Summary

- The only non-negotiable requirement for a successful business is CUSTOMERS
- For your business to succeed, you must provide something that is important and unique TO SOMEONE
- Therefore,
  - Figure out who can’t live without your product or service
  - Find them and tell them about it
  - Take their money
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