

THINKING LIKE AN ENTREPRENEUR

LESSON 3: WHO'S MY CUSTOMER? HOW WILL I KNOW?



Lesson Handout



After reading this lesson, see the **video lecture “Thinking Like an Entrepreneur: Why should customers care?”** for a deep-dive that distinguishes between product features and the benefits that customers feel.



After this reading this lesson, use the **activity worksheet “From Innovator to Entrepreneur: Who’s my customer? How will I know?”** to apply your learning.

1.0 Introduction: Smart Product Development includes Customer Development

The design phase of product development is the perfect time to verify whether your product will truly meet the needs of potential customers. It will allow you to iterate on all your assumptions about the customers' needs, very quickly and efficiently.

Steve Blank, an eight-time entrepreneur and professor at Stanford and the University of California-Berkeley, coined the term **“Customer Development”** and sparked the Lean Startup revolution among innovators globally. Customer development methods promote the mindset that product development should happen in tandem with searching for the right commercialization path (“business model” or “mission model”) and making sure that your product and market are a match for each other (“product-market fit”).

Customer development also helps you to practice your entrepreneurial thinking skills of critical thought, curiosity, and trying out new (potentially uncomfortable) situations. Steve Blank calls it “getting out of the building:” identifying your assumptions about your customers, and then talking with them to see what is accurate.

This lesson will challenge you to:

- Identify a market segment
- Describe the customer in terms of “persona” and “archetype”
- Interpret customer need and product differentiation

- Distinguish product features from customer benefits
- Formulate hypotheses by drafting value propositions
- Engage with customers and other stakeholders directly to test hypotheses

By using this customer-centric approach, you can tweak your feature sets to design a product that people will want to use. If enough people want to use it and you are clear on your goals, you can decide if it is worth making it into a reality!

2.0 Know your Customer

If a **market** is a group of people who are willing and able to buy a product or service, then what is a customer? Specifically, the **customer** is the person (or people) who play an active role in the use or adoption of your innovation. (If there are several people involved in use and adoption of your innovation, give special attention to the person who pays for it)

By connecting the market with the customer, we get what's called a **market segment**—a group of customers who share a common set of needs and plan to buy your product in similar ways.

By clarifying your ideas about who your customer is, you will be more prepared to view the world through their eyes so that you can learn what they need and value, and then design your product and commercialization path accordingly.

2.1 Customer Analysis: Archetypes

Customer **archetypes** are generalized types of people who share common motivations and behaviors. Defining your different customer archetypes can be a valuable way to begin to understand the needs and perspectives of the people adopting your product. Anyone who is involved with the use or adoption of your product can fall into 4 basic customer archetypes:

End-user: typically, the person that design-thinkers will focus upon, who handles the product. If the end-user doesn't like your product or doesn't think it is easy to use, usually none of the below customer groups matter. But what happens when there are other people involved in the buying decision?

Beneficiary: someone who doesn't use the product directly but benefits from the end-user's adoption of it. Some examples:

- A surgeon (end-user) using a new type of surgical robot that helps a patient (beneficiary) heal faster;
- A student (end-user) plays with a fidget-toy to focus while sitting in class; meanwhile their classmates (beneficiaries) are also able to focus and learn without distractions from that restless student.

Buyer/payer: someone who pays for the product. Perhaps they then pass it along to be used by the beneficiary or end-user. In some cases, it can be very difficult to find out who really makes the buying decision. Some examples:

- The hospital purchasing director is buying the robot for the surgeon to use because it will use the surgeon's time more efficiently (so that they can see more patients and bill for more surgeries).
- A US health insurance company or Medicare will have a list of products/procedures that they will or won't pay for. If the patient (end-using/beneficiary) is not paying for your innovation out-of-pocket, these insurance company representatives are your customer that will make or break your business.
- In the context of a non-profit working to "give away" their innovations to end-users or beneficiaries, the buyer/payer is the donor (foundation or individual) who pays for the production and distribution of your innovation to those in need.

Influencer: someone who will not be using the product, buying it, or directly benefitting from it, but could convince others during the buying decision. For example:

- The World Health Organization does not buy medical supplies, but it does publish a list of suggested supplies that hospitals should carry. Department heads within countries' Ministries of Health then buy supplies in order to help end-user doctors in order to benefit patients.
- For consumer products, a blogger who features product reviews may influence buyer-users because they have a reputation for knowing about cutting-edge innovations.
- Within energy, a politician or trade group might speak about your innovation and get support for your innovation, but the energy utility and rate-paying citizens are the customers who buy and use the energy you produce.

Influencers are usually highly visible and can be valuable allies, but be careful to realize that they are not your true customer because they cannot make sure your product is purchased or used.

Consider the different people involved in the purchase and use of your innovation. Are they a user, beneficiary, buyer/payer, or influencer? Are they a combination of the archetypes? Notice how the needs and motivations for these different types of customers are different from one another. How does their archetype influence whether they will support the adoption of your product or not?

2.2 Customer persona: identifying customer needs

The archetypes help you to understand how a certain type of customer will interact with your product—as a buyer, user, beneficiary, or influencer. Creating a **persona** of the customer helps you to put a human face and real-world context around a broadly defined market segment: *Who is this living, breathing example of a person who will need your solution?* Consider the person's demographic profile and the types of needs or problems that matter most to them. After all, if someone does not need your product enough to purchase it, there is little reason to go to all that trouble making it!

Demographic profile

Consider demographic and descriptive details about your customer, such as location, age, gender, income level, profession, values, or other things that group them with similar people, or set them apart from others.

Customer need/problem

When someone buys something new, they spend energy to change their behavior or spend money. Customers are constantly looking at a trade-off: is it worth the extra effort or money to change what I'm already used to? If they have a big enough problem that they need to solve or a need they are hoping to fill, the trade-off to try your product may be worth it to them. There are 3 types of customer needs:

- **Social:** looking cool, gaining prestige, maintaining status
- **Emotional:** fun, peace of mind, convenience, reduce fear
- **Functional:** getting something done faster or less expensively



EXAMPLES

Muslim teenage girls who...

- like to skateboard and are constantly on WhatsApp (demographics)
- are looking for modest clothing (social need)
- that is fashionable (social need),
- without restricting movement on the skateboard (functional problem).

Working professional moms who...

- have at least 1 child under 5 years old and whose households make more than \$250,000 (demographics)
- who spend an average of 2 hours of chores around the house when they get home each day (functional need)
- They want to relax and have fun with their kids instead of being exhausted and stressed out (emotional need).

By creating customer personas, you are forming **hypotheses**, or logical guesses, about your customer's needs. When you create hypotheses, you are getting more specific about your **assumptions** about your customers—*who they are, what they need, why they need it*. The next step is to formulate hypotheses about *how* you will meet those needs.

2.3 Defining your solution

As a designer, engineer, maker, or inventor, there is a likelihood that you already have some ideas for solutions. Maybe you've already done some sketches or made some prototypes. You probably can describe what your solution *is* and *how it works*. However, many innovators struggle with explaining *how it benefits the customer*. This is the key to making sure your product's features are worth developing and including in your final designs.

Features vs. benefits

As an innovator, you may be really excited to trick-out your invention with all kinds of cool features. Features might include: type of camera, type of algorithm, will it have a flashing light, will it be "smart," will it have rechargeable batteries, a durable case, up to 2,000 data points per second, etc.

But ask yourself: "what is the *benefit* that I think my customer will feel because I build that feature? Will they pay for that benefit?" Don't make your customer do the work to interpret what you think will be useful to them!

Differentiators

Every innovation has competition. Why is your innovation so special that someone should pay to buy your product, or change their behavior in order to learn how to use it? Don't just say your product is different or better than current substitutes. Instead, pick one feature that is so much better in one way that your product's benefits are irresistible to the customer.

How will you know if your product is SO much better than the next-best option?

First, consider what your customer does currently, and what alternatives they are considering or have tried. Then, list the ways that your innovation is different from what is out there: what benefits might be similar, and

what features do you have that they don't (and vice versa). Finally, see if you can quantify how much better (and in what way) your product would need to be so that the customer would switch. (It's OK if you're not sure what your product can do yet, or if you don't know what the customer needs yet; the important thing is to form some hypotheses so that you can revise them later.)



EXAMPLE

Scenario: Ultra-lightweight bike wheel made with advanced materials and special geometry					
Customer	Need /Problem	Feature	Benefit	Competitor	Differentiator
Competitive Road Cyclist	<i>Social:</i> win races <i>Functional:</i> go faster	Weighs less than .5 oz. Space-age materials	Less weight means you go faster, more likely to win	Do nothing: keep using favorite wheels, train harder	Testers averaged 6 seconds faster than their best timing
Mountain Biker	<i>Emotional:</i> adrenaline junkie <i>Functional:</i> breaking wheels on rough terrain at high speeds	Hourglass geometry can withstand 20kN of force	Durable wheels won't break, enjoy the outdoors, ride hard	XYZ Brand's TuffWheelz	Wheels are 3-5x more durable than the leading competitor

Now, when you go to a bike race, you can go up to people and ask them about how they chose their wheels, what they like about them, or what they wish was different. What was most important to them? How did they find out which wheel to buy?

3.0 Stating assumptions and communicating value

You now have all the components of a **value proposition**, or a statement about why a customer segment would want your product. By writing out different versions of your value proposition, you will get clarify not only how to design for optimal use of your product, but also to communicate about its value so that it will be purchased.

3.1 Value propositions are a strategic tool

Value propositions can be used throughout the product development cycle and beyond. While using them in these different ways, you are also practicing entrepreneurial thinking:

When to use	Why value propositions are useful	Entrepreneurial thinking skills
Product design phase	It is a hypothesis about who the target user is and which features are most important to develop (to stand out from competitors)	Critical thinking Creativity

Business model development	A guess about who the customer is, urgency of their need, and the underlying motives of making a purchase decision	Curiosity Reflection
Customer engagement	You learn about customer habits and what assumptions about them are true or false	Empathy Humility
Selling product	You know your value proposition is correct when you start making multiple sales. You know who to approach and can effectively communicate the benefit of your product over alternatives in a way that the customer understands	Risk-taking Confidence Achievement orientation
Recruitment of partners and investors	Validated value propositions will demonstrate your understanding of the customer's needs and your product's unique value and will inspire trust	Resilience Leadership

3.2 Value proposition components

There are many ways to write a value proposition, but each one should have the same parts:

- **Who** the customer is
- **What** their need is
- **Why** it is not met by current competitors/substitutes
- **What** your product is
- **How** it is better: connecting the features and benefits



EXAMPLE

Scenario: High tech bicycle wheel

Category 4 competitive road cyclists face the problem that they bought lightweight frames and narrow tires, gone on diets, and bought aerodynamic helmets, but are always seeking ways to get an edge on competitors. Our ultra-light bike wheels weigh less than .5 oz and enabled testers to go an average of 6 seconds faster than their previous 1-mile best when using other high-performance gear.

Adrenaline-seeking backcountry mountain bikers between the ages of 15-35 have a problem, and it is that they can't be as aggressive on big jumps as they'd like to be. The risk of coming down hard and breaking a wheel could cause serious injuries, and the

helicopter evacuation, hospital stay, and recovery could cost more than \$30,000. Our customers can ride hard with peace of mind because our bike wheels' special geometry makes them 3-5x more durable than the leading competitor, XYZ brand's TuffWheelz.

Specialty bike shop managers have a product-management problem: they have to decide which items should take up limited shelf space and are worried about sinking cash into inventory. Our ultra-durable, lightweight wheels are optimized for both road and mountain bikers, which reduces space needed and increases product turnover as it sells to two customer groups. As an added benefit, the premium product sells with a 25% higher profit margin which will earn the managers a raise.

4.0 Testing your assumptions

Creating the value proposition is just the beginning. There is only way to *truly* know if someone wants your product and if the market is large enough to warrant the time and money to produce it. You must *test your assumptions with customers and other stakeholders*. Then, *and only then*, will you know the truth about your assumptions about customer persona, their needs, your features, and the market conditions—and whether entrepreneurship is the right path for you and your product.

When you interview potential customers, you are practicing entrepreneurial thinking skills: going outside of your comfort zone, maintaining curiosity, and challenging your own assumptions. Engaging directly with customers to get their feedback can be intimidating. At first, these interactions might feel awkward, but they will become more natural as you practice. There are 4 basic steps to customer interviewing:

1. Pre-interview planning
2. Requesting a meeting
3. Conducting the interview
4. Post-interview analysis

NOTE

This is a high-level summary of steps to take. For the best step-by-step advice:

- See Steve Blank's video library about customer interviewing at venturewell.org
- Download **Talking to Humans** by Giff Constable for free at talkingtohumans.com

Pre-planning is the first step. This includes the work you are doing right now: learning about your industry and describing your assumptions about your customers. Once you have some customer archetypes and a few value proposition hypotheses, you will know who you're looking for and what you'd like to talk with them about. Not sure where to find interviewees? Go under-cover: try going to trade shows (volunteer if you can't pay to get in), and find meetup groups that they might attend. You can also go online: read magazines and blogs that your customer would read to gain more insights on their

perspectives. You can also use LinkedIn or Twitter to find experts (like retired executives in your industry). Create a list of people you have met and the people you will contact.

Next, **request a meeting** the interviewee. Your goal is to either have a quick meeting on-the-spot or to schedule a meeting, and to gain real-life insights about their perspectives. You will not always get the meeting, but it will teach you entrepreneurial skills of courage and resilience. When you contact this person, use 15-20 seconds to:

- **Introduce yourself:** your name, how you found out about them, why you're calling
- **Flatter them:** show you did your research and that you look to them as an expert. Mention a key topic in an article they published or something that they said at a conference that was meaningful to the conversation you want to have.
- **Set the expectation:** not selling anything, seeking a casual conversation to learn about their experiences with *[industry, technology, or customer problem area]*
- **Define the time commitment:** a 10-to-30-minute meeting is usually enough.
- **Offer** to meet them when and where it is most convenient to them.

Meeting the person face-to-face is ideal, and Skype meetings are OK. Try to avoid phone calls because they don't allow you to observe body language or other reactions. Don't use surveys because it's too easy to write biased questions, and you can't ask follow-up questions of your respondents if they say something surprising.

The interview is a wonderful time to find out as much as you can about your customer, and to learn about how that will impact your plans as well. A few tips:

- **Prepare for the interview.** Research the person and the company. List the questions that are most important *to you*, and then brainstorm ways that you can ask indirect questions that will help you get an answer *from them*. For example, your concern might be *"is the market big enough?"* This translates to *"which sources do you go to for monitoring market trends?"* or *"on average, how much does a company like yours spend on [problem]?"*
- **Take notes**, bring a friend, or ask if you can record the interview. You are collecting precious data.
- **Go into the meeting *without* your product.** You are there to learn *from* them, not to demo, pitch, or sell *to* them. This will reduce pressure and awkwardness for both of you and enable a more interesting conversation.
- **It's all about them.** Keep the focus on their problems, the solutions they've already tried, and the benefits they wish they had. Don't show them your product or ask them about specific features yet. Staying vague about your particular innovation will also protect your intellectual property (see Resources for more about this).

- **Get them to talk 80% of the time.** They might ask you questions; build trust by answering, but try to use the answer to lead into another question to them as quickly as possible.
- **Listen.** Check your interpretation during the conversation by asking *“I think I heard [sum up the key points], is that correct?”* This can build trust and can also help you avoid making assumptions about what they are saying. Pauses in the conversation are OK, too. They might feel the need to fill it with information you hadn’t thought to ask about.
- **Avoid hypothetical situations.** Try to ask about *past* decisions or behaviors and get them to tell stories about their experiences. This is because people are often too optimistic or polite when being asked about “future” or “potential” solutions.
- **Keep asking “why.”** It’s OK if you don’t stick with your interview script. If they said something you wanted to hear, asking “why” will help you learn more about how you can stand out from competitors. If they said something disappointing or negative, use it as a learning opportunity; it might lead to changing a hypothesis or a feature set in order to meet an even bigger need.

At the end of the interview, ask them *“is there anything else I should have asked you?”* Finally, thank them for their time and ask them if they know anyone else you should speak with. These closing insights and connections will help you build better questions for the next customer interviews.

Finally, conduct **post-interview analysis**. First, send a follow-up thank-you card or email to the interviewee. Then, sit down with your notes: what did you learn? *Do they think they have the needs you thought they do? How do they solve them currently? Did they try any alternatives? What factors led to the decision? How much do they pay for it now? How much would they be willing to pay if X feature or benefit was available? Why?* Note new hypotheses, revise old hypotheses, and make new appointments with more interviewees. As you speak to 10, 20, or 100 customers (or stakeholders), you will notice patterns.

5.0 Connecting the Dots: Understanding the customer will help you build a better product... and a path to market

Looking at the world from the perspective of your end-users and customers can be inspiring, frustrating, and ultimately empowering. This lesson challenged you to:

- Identify a market segment
- Describe the customer in terms of “persona” and “archetype”
- Interpret customer need and product differentiation
- Distinguish product features from customer benefits
- Formulate hypotheses by drafting value propositions
- Engage with customers and other stakeholders directly

By testing your hypotheses and continuing to engage with customers (and other stakeholders), your possible commercialization pathways will become clearer. This will likely lead to even more questions. Great! Ultimately, you will have the information in order to build a great product and will have better odds for it reaching your users.

“Good entrepreneurs do not fall in love with what they think they know. They fall in love with finding out what they don’t know”
—Steve Blank

5.1 Lesson Summary: Entrepreneurial thinking, product development, entrepreneurship

Because of your hard work and entrepreneurial mindset, you now have the tools to collect key data points about your customer, the market opportunity, and the paths that are best for you and your product.

With the interview data collected from interacting with at least 50 potential customers, can you calculate a possible TAM and SAM? Is it big enough? Have you verified or refined your understanding of your customer groups and their pain-points?

In doing so, you will be better prepared to answer a question that only **you** can answer:

- *Should I be an entrepreneur?*
- *Which commercialization path appropriate for the market conditions and my goals?*
- *Do enough people want my product that it’s worth it to commercialize at all?*

And, if the answer is “no,” you *still* have options.

- One option is to **pivot**: to keep the same product but find a more exciting market, or to keep an exciting market and re-design the product.
- Another option is to move on to an entirely new idea or project and use your energy there instead.

Either way, going through this process has helped to build your skills as an entrepreneurial thinker, which will serve you well into the future.

Next Steps



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