

The Idea



Confront the Lawn Gnome of Indolence

1

Chapter

The biggest barrier to starting a tech business is taking your own ideas seriously. The Lawn Gnome of Indolence sits in the same place every day, which is opposite of what you need to do to launch your idea. In this chapter, we'll walk through techniques to create ideas, reality test them, and identify the key assumptions whose validation is most critical to your success.

Conception

It all starts with a simple need or desire. Facebook creator Mark Zuckerberg wanted a way to meet girls. Google co-founders Sergey Brin and Larry Page envisioned a better way to find things on the Internet. In the same way that the investment advisor Charles Schwab wisely advised us to invest in what we know—and years before that, our high school English teacher told us to write about what we know—your runaway success may be right under your nose. To conceive the next great technology-enabled business, you need to look for something you or your immediate friends and family want or would want but don't have.¹

Although big successes like Facebook and Google are the ones we hear about, it's so easy to deliver high-tech products today that countless smaller successes exist. Though you'll never read about these in *Fortune* magazine,

¹The corollary to this is "seek to know more." The most active entrepreneurs are voracious learners.

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they have been a genuine success for their creators and their users. They can come in any size: They might be something you do within your current company, or they might be the reason for you to start a new company. The following scenarios illustrate a few possibilities:

- You're a trucker who wants an iPhone app that tells you how long you have until you reach the next qualified service station.
- You're a soccer parent whose spouse and kids are on Facebook, and you want a Facebook app to help organize household activities and shopping lists.
- You operate a chain of dry cleaning stores, and your customers have been asking if they could arrange pickup and check the status of their items online.
- Your company does dinner cruises on a set of boats you own. You'd like to improve your ability to take reservations and book company events online, as well as getting customers on an e-mail list.

Introducing Enable Quiz

Enable Quiz is a fictional company we'll use as a central example to apply the material that follows. Enable Quiz is another result of necessity spurring invention. Andrew, its soon-to-be-founder, is a program manager at an insurance company. As is the case with so many companies today, many of his key projects have to do with information technology (IT). He's constantly pitching for IT resources but getting less than what he needs. His company's IT director seems to spend a lot of time deciding whether a given employee or contractor is suitable for a job. Can the employee develop in the programming language PHP? Java? What about doing development on top of the company's customer relationship management (CRM) platform, Salesforce.com? Since Andrew's been in the insurance industry, which is essentially about measuring and pricing risk, he has wondered why there isn't a more straightforward means to measure IT engineers' ability in a given area.

As a result of his musings, Andrew conceives the idea for Enable Quiz, a service that allows managers to create and administer technical quizzes in specific areas of interest. For example, if a manager wanted to see how qualified a job candidate is to develop applications in the programming language Java on top of the Linux operating system, he or she could select ready-to-use questions from the Enable Quiz question bank and formulate a quiz that includes questions on Java and Linux. The manager could give candidates this quiz during their interview to assess their ability in Java and Linux.

Reality Testing

Why and How?

Though it's important to reality test your idea, I recommend against doing it too early. If you're thinking about your idea a lot, spend at least a week expanding on it. Make lists or keep a journal. Different things work for different people, but I recommend keeping some kind of written record since most people remember less than they think. If you think about your idea occasionally, wait longer. Reality testing it too soon increases the risk that you may find something that initially appears to be an obstacle but isn't one once you've articulated your idea more.

The first question in your reality test should be this: Is my idea out in the market to a degree that makes a new entry unattractive? However, being the first mover and building a "platform" was more important when the Internet was in its Wild West phase in the late 1990s/early 2000s. People adopted a kind of gold rush mentality then: They *had* to be the first to offer e-mail online, deliver dog food online, sell books online before someone else claimed the space. In fairness, many successful companies began this way. The Internet was a wide-open prairie, but now it's full of cities, suburbs, freeways, and rest stops. Developing high-tech products these days is a lot like the developing anything else: You don't have to be the only player in your category as long as you're serving a market that justifies the amount of your investment. An important corollary to this is that the required investment to execute for a high-tech endeavor has fallen dramatically.

Examples

Let's revisit one of the examples from our list in the previous section on conception: a Facebook application to organize household activities. A quick Google search on "household calendar online" shows us a significant player exists in the area called Cozi (<http://www.cozi.com/>), which has a stand-alone application (not a Facebook add-in). The website and press tie-ins look fairly credible. More searches and tech articles from reliable sources such as Tech Crunch and *Wall Street Journal's* "All Things Digital" reveal that a company, Astrid (<http://astrid.com/>), offers a "social to-do list." So, we know we have a player in our product category that operates as a stand-alone application (vs. an add-in on Facebook) and a player that offers a technology product similar to one of our functions (shared to-do list). However, our search in the Facebook app store doesn't uncover a household calendaring and to-do list application.² Would such an application targeted at

²As of August 2011, at least.

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households pull in enough users to justify the investment? Maybe, maybe not. The point is that you shouldn't abandon your idea because someone out there has done something similar. After all, if a plumber works in your town, is there room for another plumber? The answer depends on whether you live in a one-plumber town, a 1,000-plumber town, or something in between. Another crucial element of methodically considering the market has to do with geography and nationality. Think about creating a domestic clone for successful endeavors you encounter abroad. This isn't the kind of blue sky inventing that's popularized in the annals of high-tech history, but it's made many individuals wealthy. For example, the Samwer brothers, in Germany, have profited to the tune of tens of millions of dollars by launching domestic technology-enabled businesses that were inspired by existing successes in other countries.³

Early Reality Testing and Enable Quiz

Let's return to Enable Quiz. Andrew starts his reality testing by conducting an Internet search. Though he finds companies that allow users to create quizzes online and some that offer high-end technical exams, he doesn't come across one that focuses specifically on simple quizzes targeted for IT engineers. Based on his findings, Andrew feels he has enough of a niche to press forward. He talks to an engineer to see if anything else is out there he's unaware of: Is there a standard test or quiz engineers can take to certify their abilities? He gets the response he expects: Real engineers don't need a silly quiz to prove they know what they're doing. Well, fine, but managers do need such a quiz. He does a more systematic review of how companies solve the problem of evaluating technical talent for hire/contracting. He believes HR managers, software development managers, and operations managers whose business has a large technical component are all potential customers for Enable Quiz. The five key questions Andrew wants to answer are the following:

1. Does a significant population of potential buyers exist?
2. What are the "hot buttons" that would make them buy this product?
3. Are they reachable? How would they purchase such a service?
4. Would they purchase it from Enable Quiz?
5. How much would they pay for it?

Andrew makes the rounds with a few contacts and receives encouraging results. For example, he learns that managers with an engineering background still struggle to assess whether new hires are up on the latest

³"Attack of the Clones," *The Economist*, August 6, 2011.

technologies and systems. After two weeks of interviews, he has a set of eager beta customers.⁴ Dreams of being a dot-com millionaire dance through his head.

Iterative Reality Testing

Iteration means repeating a process toward reaching some final goal. By contrast, classical management involves long-term planning, extrapolating forward to a set of results from a set of assumptions, and sticking to that plan come what may. Managing a startup requires an equal degree of rigor, but you have to apply it differently. Startups operate in an environment of flux and uncertainty. Lean management and adaptive (or agile) development are the most popular management frameworks in the startup domain, and they involve frequent but structured review of the business' key assumptions and plans.⁵

Iterative reality testing means testing your assumptions against reality, revising them, and retesting them. Think of your idea as a set of assumptions. Ask yourself whether these assumptions are supported by existing data and practice or if they require a bit of intuition and faith. If the latter is your answer, how can you remove that requirement? One way is to use the scientific method to prove your key assumptions, and this is a facet of leading theories on how to succeed in a startup.

You may remember from science class that this process begins with a hypothesis, an idea that you need to prove based on experimental results. So, let's say you have a hypothesis: Deer find pineapples irresistible. You might design an experiment where you place food accepted to be favored by deer (alfalfa) next to a set of pineapples then record how the deer approach each. If you repeat this across a few deer populations and the deer consistently eat the alfalfa and pass on the pineapple, you could reasonably consider at least a universal version of your hypothesis disproven. Proving or disproving assumptions in this fashion is the basic principle behind the scientific method. Practicing the method in a startup means designing quick and inexpensive experiments to confirm your critical assumptions. This practice will serve your venture much better than the most elaborate long-term planning.

⁴Beta is release of software planned for evaluation by outside parties, usually customers; following beta, companies take various steps culminating in general availability (GA) of the software.

⁵The idea of lean management was introduced by Jim Womack in his work on successful manufacturing techniques at Toyota, formalized in *Lean Management*. Adaptive or agile development reappeared in the mid-1990s and was substantially formalized in the *Manifesto for Agile Software Development* in 2001. More recently, the principles have been applied to startups in the Customer Development framework, pioneered in Steven Banks' *Four Steps to the Epiphany*, and recently expanded upon and married to agile development by Eric Ries in *The Lean Startup*.

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Figure 1.1

Scientific
Method

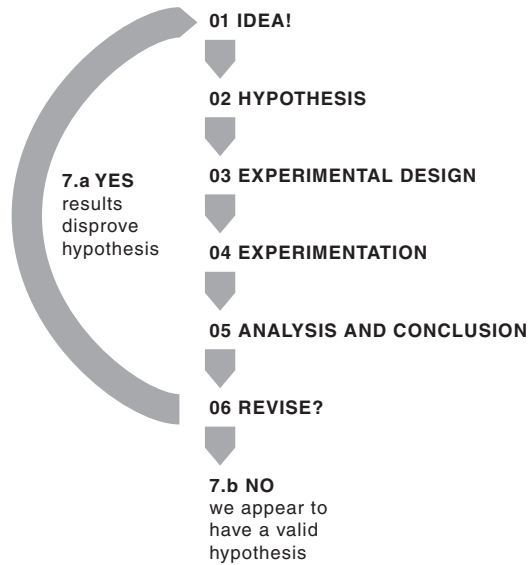


Figure 1.1 describes the process in more detail.

1. First, you have your idea.
2. Then you need to identify the key assumptions (hypotheses) you must prove to make your idea a successful business. (The next chapter will cover that in more detail.) Don't mistake an important hypothesis for one that needs to be proven. They are different. For example, your venture might assume working mothers use Facebook. Plenty of data can prove that fact, and most people will believe the statement.
3. Once you've stated the hypotheses, you need to design experiments to prove or disprove them. You don't need anything fancy. In fact, think of the simplest experiments possible. The minimum requirement is that the experimental result is a definitive yes/no or a/b/c type of result.
4. You must conduct your experiments as expediently as you can since the idea is to find out if you're barking up the right tree.
5. Ensure your analysis is clear and links clearly back to your hypothesis. The more vivid and understandable your results, the more definitive they'll be for you and the more convincing they'll be for your other audiences. You may find your experimental design didn't give you the results you need. Don't worry if this happens. Just trek back to step three (designing the experiments), revise, and proceed.
6. Honesty is the best policy during this step. If the experiment disproves your key assumptions about the idea, you may need to go back to the drawing board. Don't kick yourself though. Instead, congratulate yourself. You just saved a lot of time and money and have another shot at success.

Iterative Reality Testing and Enable Quiz

Let's take a look at Enable Quiz's key assumptions: whether they need proving and how we might design an experiment to do so. Enable Quiz will offer simple, cheap, ready-to-use technical quizzes to businesses that need structured assessments of technical talent. Table 1.1 summarizes the key assumptions they need to validate. They generally go from the general to the particular.

Note: Many assumptions are listed; feel free to skip the balance of the table if you feel you've got the idea.

#	Key Assumption	Needs Proving?	Experimentation
1	Businesses want structured assessments of technical talent.	The general form of the assumption is supported and does not need proving. In IP networking and systems administration, certifications are popular. They're less popular in software development, but that doesn't disprove the general form of the assumption.	not required
2	Businesses want structured assessments of technical talent via simple online quizzes.	Yes, this one needs proving. It's crucial because it's Enable Quiz's unique niche.	<ol style="list-style-type: none"> 1. The quickest experiment would be to investigate the popularity of relevant Google search terms. We'll go through a few examples in the next section. 2. Another easy experiment would be to identify Google AdWords⁶ and set up a placeholder site with a signup link. Measuring the portion of users who click through and who sign up for an e-mail notice will provide one good, empirical gauge of interest that's easy to explain. 3. Creating a prototype and sitting down to conduct demos with target customers would yield a smaller data sample but a much richer context. Prototyping tools like Google Sites (nontechnical) and Balsamiq (a little more involved) have simplified the process. This experiment should help Enable Quiz paint a picture of their subject and the customers' reaction to the product. Such a prototype would help Enable Quiz test the more specific cases below. Having a prototype is not a prerequisite to talking to a few customers. In general, you should feel free to start with that if it seems applicable.

Table 1.1

Key Assumptions:
Enable Quiz

(continued)

⁶These are advertisements available throughout Google, but most principally on pages with search results users receive from a Google search. The advertiser is able to buy ads against specific keyword searches, making AdWords a very powerful tool for reaching a target audience in a target context. AdWords is Google's main advertising product.

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Table 1.1

(continued)

#	Key Assumption	Needs Proving?	Experimentation
3	Businesses want structured assessments via a quiz of talent in IP networking.	Though this one is less questionable than some of the others below, it would benefit from validation. There is an established market for technical certifications in this area (most of them from Cisco). Is there a role for quizzes, perhaps for those that aren't certified? Does a quiz exist for those who are, whose managers want to check that they know about a specialty topic?	This is a variation on the item in #2. Enable Quiz would use more focused AdWords than in experiment one and two and perhaps more specific examples in their prototype.
4	Businesses want structured assessments of talent via a quiz in Unix or Linux system administration.	There are active certifications in this area, but they are less prevalent than those in IP networking. This will be an interesting middle case between disciplines where certifications are prevalent and those where they are not.	(see #3)
5	Businesses want structured assessments of talent via a quiz in Microsoft server system administration.	This variation is similar to the Unix and Linux items though certifications are more common in Microsoft community.	(see #3)
6	Businesses want structured assessments of talent via a quiz in website development.	Official certifications are almost entirely absent here as they are in most of the cases below. This is the first test case that involves a broadly applied technical skill without any professional certifications of note.	(see #3)
7	Businesses want structured assessments of talent via a quiz for Java, PHP, Ruby, or .NET programming.	This item is similar to the website topic above in that there are few official certifications. Ruby is a hot, new topic, and rates for Ruby developers have soared in the last couple of years. Ruby might be a good subtopic for an initial test.	(see #3)
8	Businesses want structured assessments of talent via a quiz in quality assurance testing.	(see above)	(see #3)

Table 1.1

(continued)

#	Key Assumption	Needs Proving?	Experimentation
9	Businesses want structured assessments of talent via a quiz in development management.	(see above)	(see #3)
10	Businesses would use a hosted system for testing and learning management.	This assumption is supported, since there are many SaaS offerings in the area of training and learning management.	not required
11	Businesses would want a lightweight system for administering technical quizzes to existing employees for learning and skills management.	This is a variation on #2, but the focal questions around existing employees vs. job candidates is material in how Enable Quiz sizes, segments, and approaches the market.	The sign-up/pre-launch webpage could present options specific to "learning management for your team" vs. "interview questions." Another option, more attractive if a substantial split appears, is to buy separate AdWords and put up separate sites for both propositions.
12	Businesses would want a lightweight system for administering technical quizzes to job candidates.	(see above)	(see above)
13	Companies that offer learning management systems would promote a company like Enable Quiz if the references went both ways.	Yes, this needs proving. Working with a larger partner in the Learning Management System (LMS) space could provide Enable Quiz with a ready-made source of sales leads and possibly financing and eventually exit.	Enable Quiz needs to approach this carefully because it could incite a competitor. But the competitive risk probably isn't as great as Enable Quiz may think. If the LMS firms don't show an interest in training, they're probably doing all they can to execute on their existing business.
14	The target customer will primarily learn about Enable Quiz online and buy directly from Enable Quiz through their online store.	This needs proving. Enable Quiz is somewhere between resegmenting the online learning market and creating a new market for lightweight online technical quizzes. A more hands-on approach may be required to introduce the product to its target buyer.	The best way to measure this will be the AdWords testing and the landing pages.

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Always reach for the largest, lowest hanging fruit first when you're reality testing. Andrew's identified this priority list for his initial reality testing:

1. Search Terms

Checking out the prevalence of existing search terms is quick and easy. We'll review a few caveats and tips on approach in the following subsection.

2. Customer Interviews

There's nothing wrong with going out and talking to a few prospective customers. This will help Andrew figure out where to focus and what to expect.

3. AdWords Trials

This involves buying AdWords and linking it to prototype landing pages on your site. Though it sounds like a lot of work, it isn't.

4. Prototype Demos

This requires you return to those prospective customers and show them a basic prototype. Though this is likely to be the most time-consuming test, prototyping tools remove much of the grunt work and you'll probably learn a few things you can feed into your product design process.

While you're reality testing, keep in mind that if you are introducing a new product category, you shouldn't necessarily expect to find lots of existing searches for your new product. Along the same lines, avoid the common fallacy of asking customers if they want what you're developing and expect them to respond with an instant "Eureka, I need that!" The Walkman and Facebook are good examples of products where we didn't know how much we'd love them until we met them in person. The key is to think like an anthropologist, not a salesperson. You're there to learn about your target buyer, not instruct, judge, or sell.

Testing Search Terms at Enable Quiz

Every individual on Earth has direct access to Google's data on who's searching for what. I've found Google Insights to be the most effective tool: www.google.com/insights/search/. It's easy to get carried away with the data so I recommend structuring your questions first.

Our first key assumption for Enable Quiz was "Businesses want structured assessments of technical talent via simple online quizzes." Andrew will start with the most direct test: Are users searching for such quizzes? Figure 1.2 shows Insights' results for the search phrase "technical quiz online."

This data from Google Insights are scaled and normalized on a scale from 0 to 100 by the relative incidence of the search. In other words, every term will have a point on the time series that is 100, and every other point is scaled against that. Let's take a look at something more predictable, such as searches for the term "skiing" (Figure 1.3). What the graph tells us is that users search for skiing during the winter and to a decreasing degree over time, probably because they're doing more specific searches. Back to the previous data: What does the information tell Enable Quiz about searches for "technical quiz online"? First, it looks a little funky. What's with the wild peaks and valleys? It looks as if either some major events in the world of online quizzes occurred (unlikely) or that we're looking at a small sample size where a few searches wildly change the index (likely). These data don't describe absolute number of searches, but there are some clues.

Figure 1.4 shows additional data on searches by geography and related searches, and lo and behold, all the panes say "Not enough search volume to show results." In fact, I had to expand the search from "US-only" to "worldwide" to get any results at all. This tells us there isn't much activity for the search term.

Searches for similar terms look roughly the same. So what? What does this tell Enable Quiz about its key assumption, which was "Businesses want structured assessments of technical talent via simple online quizzes"? It shows that people aren't currently

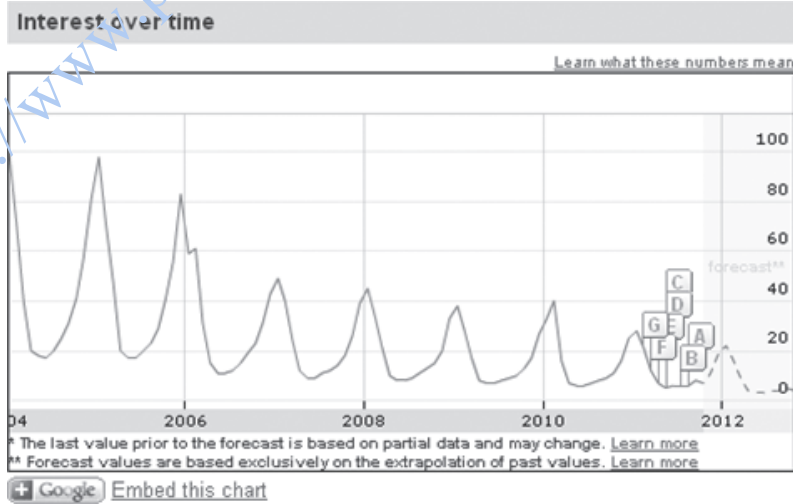
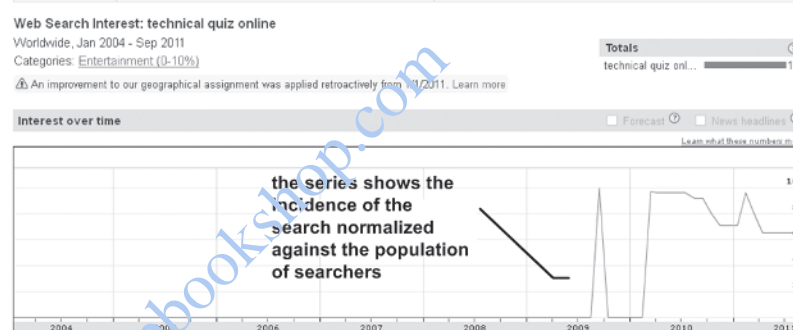


Figure 1.2

Google Insights Search for "Technical Quiz Online"

Figure 1.3

Google Insights Search for "Skiing"

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Figure 1.4

Supplementary Information for Google Insights Search on “Technical Quiz Online”



Figure 1.5

Windows Admin

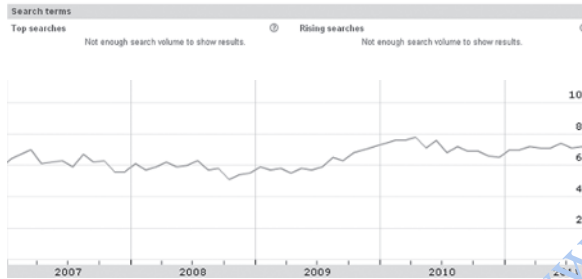


Figure 1.6

Network Admin



Figure 1.7

Sysadmin (Linux, etc.)



searching for online technical quizzes per se. Bad news? No, not really. In a way, it's good news. One of Enable Quiz's assumptions is that they will be a first mover in this niche, and this result is a reasonable (though not definitive) indication they will be.

We still want to see what we can learn about demand. Let's take a step back and think about the fundamental needs that Enable Quiz believes its product fills and see if Google Insights can prove interest exists. Enable Quiz targets two related use cases: technical assessments for job interviews and skills audits of existing employees. Enable Quiz has broken this down by technical subtopic: Linux, Windows, Java, QA, and so on. Do employers want to hire and employ people with the skill sets Enable Quiz has identified? Finding this out wouldn't entirely validate the key hypotheses, but it would show a strong fundamental basis for the assumption that prospective employers want a way to validate these technical skill sets. Figures 1.5 to 1.15 show search results from Insights for the job descriptions in the Enable Quiz assumptions in Table 1.1.⁷ Take a look at these results. What do you think they say?

I think they tell us these job roles have a steady demand, and that's a good sign that Enable Quiz can assume there's solid hiring in these key areas. Most show a decrease then stabilization. No one likes to see lines going south. Why is that? In most cases, areas like system administration (sysadmin) and web developer have become more specialized over time, and more specialized sub-searches are probably taking up more share. The fact that for the most part the "Top searches" and "Rising searches" suggestions below the results show more specialized searches within the area further supports this.

⁷As of 10/2/11, searching in the United States only.



Figure 1.8
Windows
Server Admin

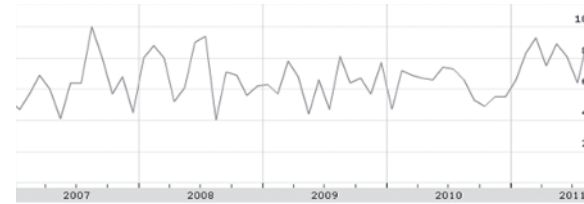


Figure 1.12
Ruby
Developer



Figure 1.9
Web
Developer



Figure 1.13
.NET
Developer

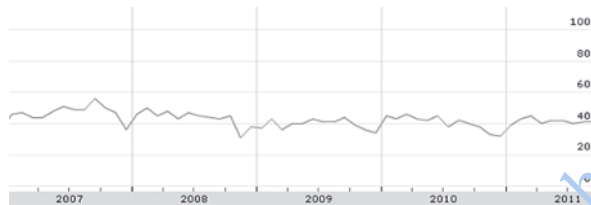


Figure 1.10
Java
Developer



Figure 1.14
QA Manager

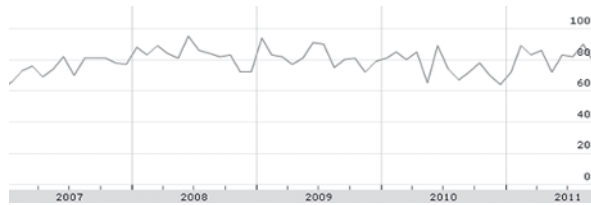


Figure 1.11
PHP
Developer

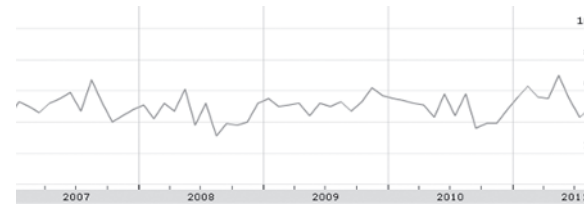


Figure 1.15
Software
Development
Manager

<http://www.pbookshop.com>

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I wouldn't call the following conclusions entirely validated, but they will serve as useful focal points for the exercises that follow.

1. Enable Quiz's buyers don't currently possess the concept of an online technical quiz.
 - Enable Quiz will need to create the category by reaching them through related searches and inquiries.
2. There is strong and steady demand in the technical skills they plan to target with the initial set of quizzes.
 - The related keywords are useful inputs for the next tests Enable Quiz will run.

Testing with Customer Interviews

Done right, customer interviews can be your quickest means to pivotal insights on the target buyer. Customer interviews are not sales calls, they're not statistical collection, and they're not simple questionnaires. Think of yourself as an anthropologist wanting to learn about these target buyers in their natural environment. There's no fixed list of questions that will get you the right answers. You won't get to every person involved with your product, so it's important to understand how to craft your proposition so that it will naturally resonate with your target buyers (or users if the project is internal). Don't sell, instruct, or judge; just try to understand.

Table 1.2 describes a general line of questioning and its various objectives. The areas of questioning are roughly sequential, but the most important preparation is taking an inventory of the fundamental things you want to get out of the interview and establishing a rapport with the subjects (you'll likely want to talk to them again), rather than being thorough or consistent.

If you don't have a prototype, you may want to visit again to see how that changes the customer's reaction. You'll probably have follow up questions on the second visit that you forgot or accumulated in your other interviews. Don't feel you need to repeat questions if you're consistently getting the exact same answer: You're not trying to make your data statistically significant. Finally, if you think your subjects will go for it, try bringing a video camera. A picture tells a thousand words and you can show selected footage to the rest of your team and investors. If you're not sure how it will play with the subjects, try it out and see if you think the interview feels different. It's also something you can introduce on the second visit if you're doing that.

Table 1.2

Customer Interview Questions

Objective	Example Questions and Techniques
<p>Understand the Buyer Like You Understand Your Best Friend This might seem superfluous and a little too touchy feely, but it isn't. You'll be surprised at how the most seemingly insignificant insights about your buyers help you design your product, describe them to your implementation team, and craft your message and promotion. Additionally, these questions and those in the next row will give you important context in considering the variation you get on your more specific questions around the product/market fit.</p>	<p>Always start the interview by being clear and open about who you are and what you're doing. However, avoid describing your product. It's fine to explain it in general terms as a solution in their area but emphasize you're in the learning phase. Don't be too coy—most people won't open up much if they feel you're being secretive or aloof.</p> <p>Ask the customers about their job. If you have a consumer product, ask them, "What's a typical day like?" You'll probably get a vague and general answer, which is not what you want. You want specifics. Most people perceive things to be the same even though they differ in important ways. Ask the subjects to describe what they did yesterday without being too nosy. Ask for more detail about things that come up that seem particularly interesting or relevant.</p> <p>Ask them about what's on their A-List, that is, what's top of mind lately. What problems would they most like to solve or like to do better?</p>
<p>Understand the Buyer's Operating Environment This might be companies or households. You want to understand what they do, how, why, and how they feel about it.</p>	<p>Find out about people and systems that the subject interacts with and to what end. Why? Which do they find difficult vs. easy? Pleasant vs. unpleasant?</p>
<p>Understand the Buyer's Learning Environment Find out where they go to find out about new things in your general area. You need to understand what kind of promotion is going to reach the target buyer and be credible.</p>	<p>This might be publications, websites, friends, colleagues, professional networks, or trade shows.</p>
<p>Understand the Buyer's Perception of the Problem or Need You're Addressing Do the buyers think this problem exists? How important is it to them, and what terms do they use to describe it? This will serve as an important reality test of your product idea, its price, and its promotion.</p>	<p>You've probably talked about the general area in which your proposed problem exists. For Enable Quiz, it would be the hiring process and skills management for existing technical staff.</p> <p>Ask the customers in as general terms as possible about the problem area. How much prompting do they need to know what you're talking about? How do they describe it? Do they think it's important? Who else has this problem: colleagues inside the company, peers elsewhere?</p>

(continued)

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Table 1.2

(continued)

Objective	Example Questions and Techniques
<p>Understand How the Buyer Is Solving the Problem Today</p> <p>How are your customers solving the problem today? Their current solution is effectively your competition. You want to understand how satisfied they are with their current solution and how much it costs. Pricing is essentially about measuring value.</p> <p>This means your price is proportional to the value of the problem you're solving, net of any additional costs for your buyers to deploy it and the premium they place on trying out something new. See the Pricing section under the Four Ps in Chapter 2 for more detail.</p>	<p>If this is a business setting, you should be cautious and considerate about asking the subjects to talk about their company's "inside baseball." That said, gleaning this information is important. Investigate a bit, but allow the customer to pull back if they don't want to talk about specific figures. They may not know or have not framed the issue in the terms you have. If that's the case, get as many data points as you can about how much the problem is worth.</p> <p>Don't take it as a bad sign if you find that the customers have something they've developed themselves internally, because this may actually be a good sign. It shows your assumption that a problem does exist is correct. If the product is internally developed, that means it's highly likely another buyer in the segment hasn't done anything or has done something different. Basically, you're looking at a nascent opportunity, which is perfect. Additionally, you may be able to solve the problem much better with something you develop that is standard and thought through end to end by experts, leveraging the industry or user segment's needs and best practices.</p>
<p>Present Your Solution</p> <p>You want to be careful here: You're not selling. You're describing in an attempt to see how the customers react to the proposition without your prompting. Do they squint quizzically or react with delight and desire?</p>	<p>Describe the solution in general terms. If that doesn't work, articulate it more specifically. Keep in mind that the more you have to explain, the more you'll have to do to educate the market. If you think they understand but don't seem to care, don't push them. You have your answer: This reality test doesn't pass. The worst thing that can happen is that the buyer tells you your idea is great when they don't think it is. Their reluctance to hurt your feelings will only result in creation of a product that's not truly viable.</p> <p>If you get this kind of reaction consistently, it's time to step back and see if you need to vary your approach or go back to the drawing board. Hey, it's better than spending time and money on something that's not going to take with the buyers.</p>

Enable Quiz and Customer Interviews

Andrew arranges interviews for Enable Quiz through friends, professional contacts, and some folks he got online who signed up with the landing page testing. His target subjects are the Human Resources (HR) and functional managers responsible for technical staff. His understanding of the buyers and their operating environment improves greatly. His questions about process relate to the hiring of technical talent and how the company invests in its technical talent to improve it organically. He asks how things are going in the area and what they'd like to do better, about the cost of a bad hire and how much the company thinks it could increase output from existing staff with more skills development. He asks about the résumé screening process and interview process, and about how the company proactively encourages technical skills development. Finally, he explains Enable Quiz in three sentences for ten seconds. If the customer doesn't get the concept or has more questions, he shows them a few paper mockups. Andrew learns 15 actionable things:

1. Functional Managers Want Better Screening from HR

Functional managers would love better screening of the “junk” résumés they feel HR sends them. Most acknowledge that recruiting consistently gets pushed downward by their daily jobs, even though it should be at the top of their list. Getting more qualified résumés would reduce the time they have to spend on reviewing them and, most importantly, on conducting interviews.

Andrew knows that HR not functional managers would be doing the buying in most cases, but this suggests that Enable Quiz may need to promote to functional managers and get them to ask HR for the service. It tells Andrew that one good promotional message is “cut the number of interviews you do by half while increasing the quality of candidates” or something along those lines.

2. HR Managers Would Like to Do Better Screening

Several of the HR managers independently mentioned that they would like help screening technical resumes. They find it difficult to sort out all the specific jargon to find the signals of a promising vs. nonpromising candidate. That said, this pain isn't as big as that of the functional managers.

This tells Andrew he's going to have a responsive audience in the HR manager, though the economic buyer looks like it will usually be the functional manager.

3. Larger Companies Have a Training Department

Larger firms, roughly 100 employees or greater, often have a training department. Andrew talked to a few people in the role. They were interested, but tended to want bigger solutions, like complete learning management solutions.

Enable Quiz can learn from these managers, but it still looks like the HR manager and functional manager are the target buyer for the kind of casual quizzing Enable Quiz offers.

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4. HR Managers and Trainers Read Certain Publications

These buyers read a small set of publications.

While buying space in the print section of these magazines is likely outside of Enable Quiz's budget, it may be possible to do some advertising on their websites and guest editorial if Andrew can craft something interesting, possibly a case study written with a customer.

5. Functional Managers Read a Variety of Publications

The various functional managers read a variety of publications, depending on their industry and specialty.

The variety is too big to do worthwhile promotion, at least directly. So, Andrew must find another way to grab these individuals' attention.

6. You Can Buy Ads on Monster.com

Two of the HR managers mentioned that it's possible to buy advertising on Monster.com and similar sites. It may be possible to buy targeted ads as well.

This is a promising possibility for promotion, depending on the price and ability to target by types of technical jobs. However, Andrew sees two drawbacks here: The functional managers are the real demand driver, and in all but small companies, the HR managers are the ones on Monster.com, and so on. They usually download and send selected résumés to the functional managers.

7. HR Would Like to Improve Technical Hiring

HR knows that making good technical hires is crucial to the company's success. Succeeding in this area is one of the most important parts of HR's job.

This is promising in that messaging around improving technical recruitment will resonate with the HR managers, who are much easier to target as a segment than the functional managers. One promotion technique Andrew will test is whether the message can be promoted in a way that will prompt the HR managers to put it in front of the functional managers.

8. All Managers Recognize the Financial and Emotional Cost of a Bad Hire

This is the single largest pain point: It costs money and takes a huge emotional toll on the employee, hiring manager, and HR manager, and the functional managers admit they end up with bad hires all the time. It takes three to five months for the whole thing to wind down at an average cost of 10,000USD/month. There's the opportunity cost of not having fully qualified staff in the position for this period, as well as the time it takes to replace them and train someone else (another three to six months). If the hire is just ordinary and the hiring manager was hoping for more, all parties end up in a crummy, unproductive working environment.

Andrew is sure this is the key message for their promotion activities: “What is the cost of a bad hire? We can help.” This finding is good fodder for a white paper, possibly in the form of a blog post on the Enable Quiz site.

9. Measuring Offshore Talent Is Hard

Many of the firms Andrew interviewed use some amount of offshore resources. Issues like language barriers and cultural differences make it difficult to evaluate these hires. Additionally, there are other subtle cues hiring managers would normally use in the United States that they cannot apply in these new operating environments.

This is a potentially interesting sub-segment for Enable Quiz to pursue. Andrew will make it a priority to include a few such companies in the beta to observe usage and relevance.

10. Functional Managers Feel Testing New Recruits Would Raise Morale

The functional managers know that morale among engineers grows when they feel they’re working with a highly qualified team. Engineers want to work for “smart” companies. This is one of the many negative side effects of a bad hire: a weak link on the team lowers morale throughout.

The hiring managers themselves like the idea of having their technical talent vetted and validated through something like this quiz. They’d then like to create “level 1, level 2, etc.” exams to keep raising the bar.

11. Some Functional Managers Quiz but Not Many

A few of the functional managers have their own ad hoc quizzing they do. That said, these managers were the most receptive to an off-the-shelf solution.

This helps validate some of the key product/market fit assumptions.

12. Skills Management Is Usually Ad Hoc

Few of the companies had a systematic approach to skills management and wish they did. They pay for employees to undertake whatever professional education and certification they like, but managers don’t drive this in any systematic way.

Andrew recognizes that part of their promotion strategy needs to involve educating the market on the idea of systematic skills management. White papers will help drive traffic to the site, and Andrew needs to find partners to provide a recommended “whole product” around the follow-up training since Enable Quiz just handles diagnosis.

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13. The Solution Makes Sense, but Not by Name

In general, HR and hiring managers reacted positively and intuitively to the solution. However, no one had a standard lexicon that really fit. The term “technical quiz” made sense to the subjects once Andrew had explained it, but not on first glance.

Andrew will need to find oblique terms to get at the idea of technical quizzing while building up and establishing ownership over the category.

14. The Whole Product Is Small

None of the managers identified anything in particular that they’d need to do to start using the solution. They were comfortable with SaaS solutions and felt they could take it out of the box and start using it.

While establishing a learning management ecosystem would help promote the use of Enable Quiz for skills management, customers should be able to be onboard and start using the solution for basic applications quickly. Having partners that offer follow-up training for skills assessments will be nice, but it doesn’t look like a barrier to purchase and implementation.

15. The Spend Can Come Out of Operational versus Capital Dollars

Managers claimed that it was easier for them to get approval to spend operational dollars vs. capital dollars. The Enable Quiz solution would come out of operational dollars since it’s not a purchase of hardware or licenses.

This makes the buying process simple since Enable Quiz’s price point is below what most managers are allowed to spend without any or much approval.

Based on learning about the customer, Andrew sketched out the following “with vs. without” diagram for Enable Quiz (see Figures 1.16 and 1.17).

This diagram will serve as fodder for the website, presentations, and white papers.

The e-learning industry has a number of trade shows, and Andrew attends a few of these to look for competition, partners, and customers. He finds a number of potential partners and though there’s functional overlap with what Enable Quiz does, there are no competitors with the same specific focus.

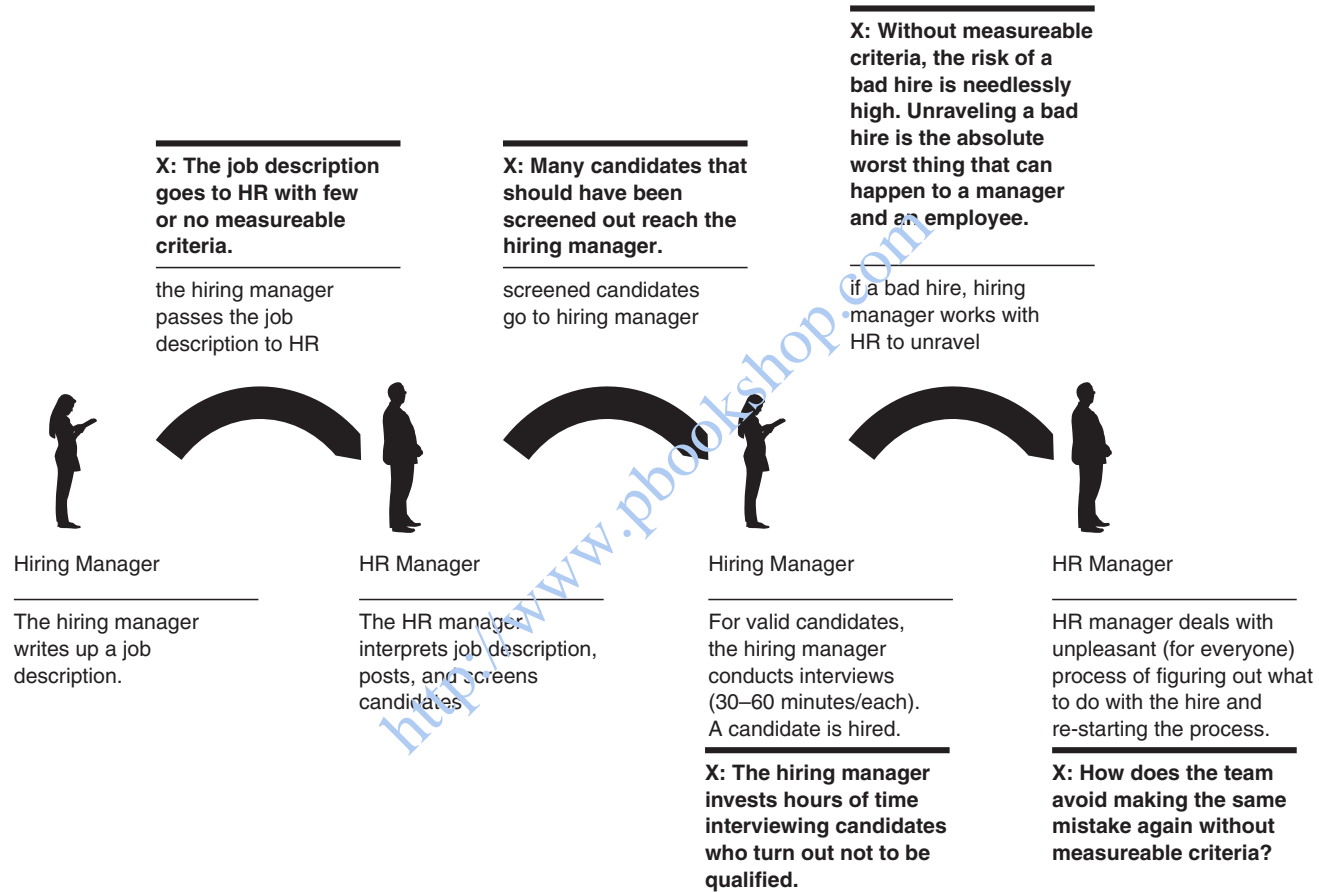


Figure 1.16 Hiring Process Before Enable Quiz

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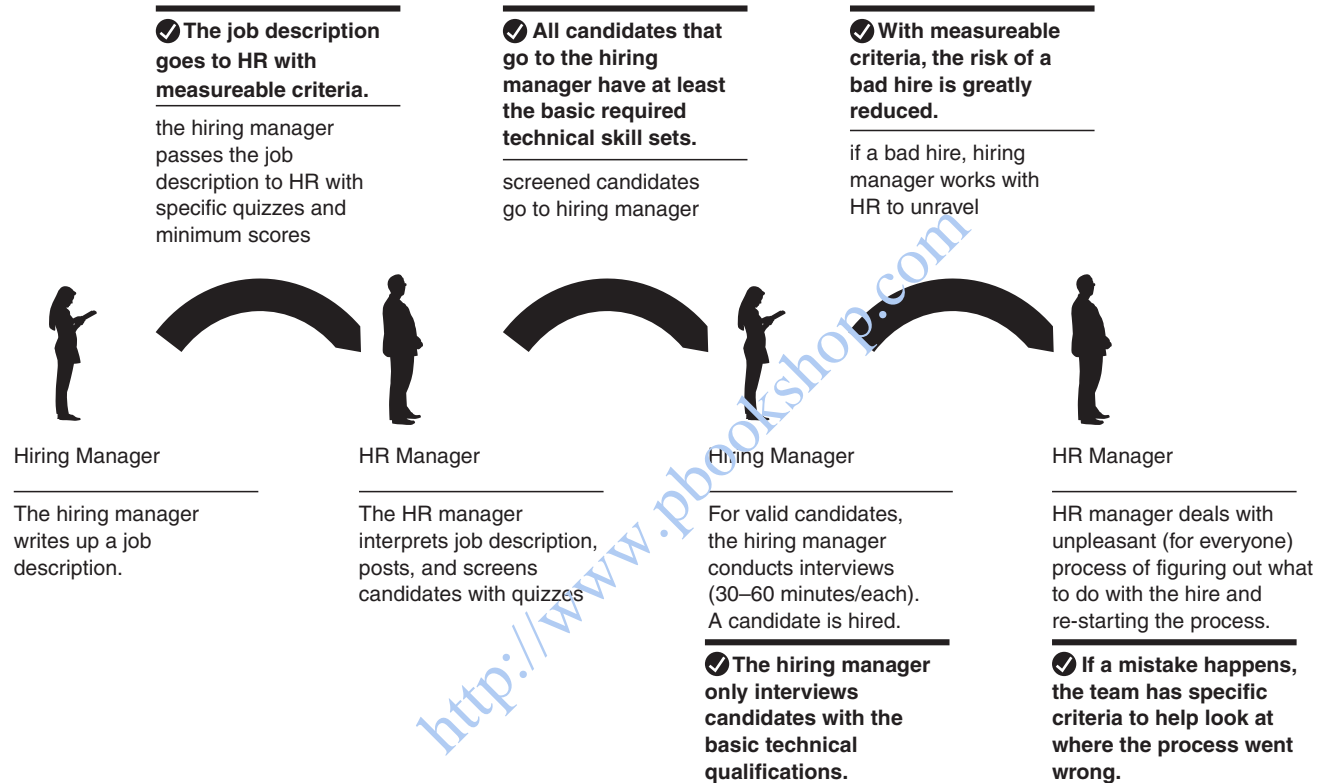


Figure 1.17 Hiring Process After Enable Quiz

Testing with an AdWord Trial

This step involves testing key AdWords with a set of landing pages, including a call to sign up for promotions and updates. What you're doing here is matching the landing page with the hook you posted in the AdWords. One thing you *do not* want to do is use a variety of AdWords and direct everyone to the same generic home page. Guiding each method of outreach and each topic to a unique landing page will improve your conversion rates and make your website analytics (progress "funnels") simpler to analyze. The difference between a landing page and a home page is that you use a landing page to orient users who are arriving at your site from a specific message. The generic form of such a landing page looks something like Figure 1.18.

You want to present the user with a refined, simple message on the landing page. A popular way to gauge the effectiveness of your message is to conduct the five-second test. Present a prototype page to people in your general target for five seconds, take the page away, and ask them to describe the page. Did they get it? If not, revise.

The second element in the landing page is an area to subscribe to updates (a newsletter, etc.). This usually includes a hook and a related call to action to see if the users are interested to get more involved and buy something. The call to action has to be compelling. For example, let's say that you got the users to come to your site from an ad, and the site is not up and operational. You'll probably need to show something more persuasive than just asking them to "Sign up here to find out when we're really operational." For example, you might limit the offer to three months free to people who sign up, or you might limit the offer to the first 500. The final element is a link to the home page (if you have one) for users that want to learn more about your company.

If you're thin on site design and implementation resources, the number one thing to remember is to keep things simple. Stay away from items where it's easy to go off track: use of colors, complex graphics, multiple site elements. A number of website prototyping tools as well as a few sample landing pages from Enable Quiz are available at alexandercowan.com/landingpages.

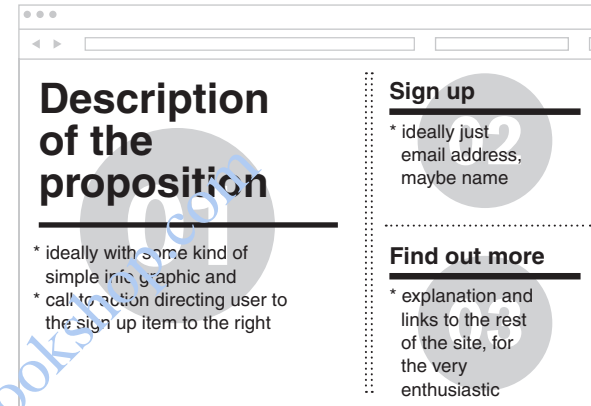


Figure 1.18

Landing Page

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AdWords Testing at Enable Quiz

Enable Quiz runs a series of AdWords, most of them around specific technical topics. If they run an ad about testing your Ruby developers, they don't want to direct these users to a general page on technical quizzes. It's all right to have the users check out the site at large, but if they come to the page wondering about quizzing developers on Ruby, tell them about that and see if they respond to the "call to action" (CTA). The CTA, in their case, is to sign up for a free beta trial. Enable Quiz created a template landing page and from there formulated AdWord-specific landing pages for each specific proposition. Though a moonlighter completes the actual pages, Andrew brings out his inner tinkerer and roughs out a few ideas to help prepare.

Enable Quiz sees particularly strong conversions on the Windows, Ruby, network, and PHP-related AdWords. The strength of the response on network and Windows AdWords was a bit of a surprise, suggesting more focus there than Andrew had originally planned.

Testing with a Prototype

After you've gathered the information you need from the previous steps, you may want to create a mock prototype to show to your target buyers. This is an easy way to get a genuine reaction, especially if your category is somewhat new to your target buyers. We talk more about product design in the next chapter, but the general idea behind your prototype is to think through the basic story of how you see your target buyer using the product.

A number of great prototyping tools are out there, Balsamiq (balsamiq.com) being one of the most effective and approachable in my experience. That said, no tool is inherently better than another. If you're working with partners who have an environment they want to use for the prototyping, that's fine. It's ultimately about what medium makes high-quality output easiest.

Prototyping at Enable Quiz

Andrew creates a Balsamiq prototype and follows up with his interview subjects. In cases where he had already described the product, he was surprised by some of the questions. He thought they understood the product when he described it in the last meeting. Clearly, the mockup is effective in making Enable Quiz's intent clear. Andrew doesn't encounter any major revelations. Most of the questions cover areas he'd considered for himself conceptually, like how the customers can add their own questions to supplement the precanned "banks" of questions Enable Quiz offers. You can download the Balsamiq prototype at Alexandercowan.com/prototype.

A final note on reality testing: Even if you're using your results internally, if you think you may *ever* present to investors, maintain all your findings in good order. They are likely to be highly compelling to investors or any outside party who you want to convince about the validity of your product and model.

Footprint

Step Lightly

Once you've completed basic reality testing on your idea and before you dive into its design (which we do in Chapter 3), it's time to consider your application's footprint. This is the niche that you'll occupy in the larger ecosystem of your customers and partners. You want to avoid the Python of Monolithic Architecture. Most high-tech successes these days are pack animals that leverage complementary technology systems. Here are a few questions you should be able to answer about your footprint:

- What are all the product functions and services my customer needs to solve the target problem or need? (This is often referred to as the whole product or extended product.)
- Which ones are consistent with my company's competitive advantage and focus?
- Where will the rest come from? Are they generally in place at the customer or not?
- How will we work with partners to deliver the additional products and services required to make our solution work for the customer?

Footprint at Enable Quiz

Andrew is clearly not operating in a vacuum in the case of Enable Quiz. Their target customers do a number of things under the general rubric of managing technical skill sets. They hire third parties to come in and do training. There are industry-standard training and certification programs in key disciplines like IP networking and Linux administration. Some use an elaborate LMS for tracking employee skills and training. A few functional managers use free sites like Survey Monkey or write their own simple applications to quiz their staff.

Andrew wants Enable Quiz to solve the problem of easily screening new technical hires and doing simple skills audits with existing staff. Andrew believes Enable Quiz's particular niche is in a stand-alone system that administers simple quizzes in relevant technical topics. It's easy to use right out of the box and requires little setup.



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Andrew knows that Enable Quiz should have reports that allow an administrator to see what quizzes students have taken and how they scored. How elaborate should this reporting be? For example, an entire category of products called LMS's help companies assess and manage their employees' skill sets. It's a big space where people are spending lots of money. Should Andrew build an LMS into Enable Quiz? The upside to this is that he would have a more complete product and potentially more revenue. The disadvantage is that he'd turn the existing players who are focused on LMS from potential partners to competitors. Therefore, Andrew should almost certainly avoid an LMS, particularly in the 1.0 version. First, he's going to have to work hard to get the resources he needs to execute the current footprint of Enable Quiz. Second, several large LMS companies are in the market and establishing a strategic partnership with one of them could be pivotal to Enable Quiz's success. For example, once Andrew gets the 1.0 version of Enable Quiz off the ground, he can approach the leading LMS companies and find out how they might be willing to help Enable Quiz if Andrew were to integrate Enable Quiz with their LMS product.

Platforms

You have five primary platforms to get your idea off the ground, and they're not mutually exclusive. You may well start with one and transition to another as you get rolling.

1. Do It in Your Existing Company

If your goal is to upgrade your current company's IT infrastructure, this is the obvious and only option. Even if it isn't, it's an option you should consider. As a manager, I run across at least one article every week about "fostering innovation inside your organization." Companies are increasingly recognizing that recruiting, retaining, and putting innovators in an environment where they can perform is critical to their long-term success. If you're an employee, building your technology-enabled business inside your existing company may not provide the upside of going it alone; however, it will reduce your risk and probably your time to market substantially. And you'll be appropriately rewarded if your company values innovators. If not, you'll have the experience under your belt. Additionally, if you at least offer to build your new technology-enabled business inside your existing company, you're likely to remain on better terms with your management if you do go it alone. Finally, have a look at the employment agreement you signed when you started the job and make sure it allows you to do what you have planned. Otherwise, it may put you at risk for trouble later. If in doubt, consult an attorney.

If you're a manager, your job is to put your employees in a position to innovate on your behalf and the first step is to buy them all a copy of this book.⁸ For example, Google is a coveted place to work for engineers. When I ask people why they're so eager to work at Google, they almost all mention the fact that Google has a "20 percent program" where employees are allowed to spend 20 percent of their time on special projects unrelated to their standard workload. Likewise, many top MBA programs work with their university's engineering schools to run classes where business and engineer students work together to conceive, design, and execute a technology-enabled business. What's to stop you from doing the same within your organization?

2. MacGyver/Garage Style

This is the classical startup story: An engineer in his or her garage creates the next great technology franchise. This is an option if you have an engineering background or are willing to acquire the necessary skills. The key consideration here is how much of your time this will take and how it measures up against your other options. Anyone who's written a piece of software knows that it almost never takes as little time as you originally estimated. That said, getting a prototype online will go a long way with potential investors or partners.

3. Bootstrap

If you're not an engineer or don't want to invest the time to build the technology yourself, bootstrapping is another option. The general notion here is that you're going to use a relatively small amount of your own money, possibly supplemented by money from your family and friends, to start the venture. The considerations here are similar to Garage Style: You need to be conservative in your estimation of how much time it will take you to reach your key milestones, which are raising money from an outside source or achieving profitability.

4. Bootstrap with Consulting

An additional variation on bootstrapping is to start your business with a heavy mix of consulting vs. product sales. This allows you to bring in revenue in a more reliable, short-term fashion while taking on much less risk. It allows you to get your feet wet in the marketplace. Be careful how you license your intellectual property in these arrangements, or you may encounter difficulty later when you try to productize the fruits of your labor. This option is increasingly popular as Industrial Revolution 2.0 makes solutions more about leveraging existing technology components (which requires consulting) rather than building lots of brand new software.

⁸Kidding! ... kind of.

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5. Raise Capital

This is a fairly common next step from the second and third options above. Entire books have been written on the process of raising capital, so we cover just a few key points here. First, don't limit yourself to traditional high-tech venture capitalists. Though you're apt to see elite high-tech venture capital firms like Kleiner Perkins Caufield & Byers behind lots of successful technology firms, these investors are looking for a team with an established history and an idea with gigantic upside (and capital requirements). Though you may have a great idea, it might not be a fit for this type of investor.

Other avenues to consider are strategic investors, who might be customers or suppliers, and wealthy individuals. One of the LMS companies we reviewed above would be a good candidate for Enable Quiz. Frequently, wealthy individuals with a background in the entrepreneurial area of endeavor are behind the early investing at technology-enabled businesses and are referred to as angel investors. Geography-independent websites like www.raisecapital.com seek to provide an open market for raising capital, but these are in their infancy. Venture investors tend to invest in local companies they can visit in person and in industries they know. Finally, even if you have solid inroads with an institutional venture capitalist, the institutional conservatism of the finance industry, coupled with the legal paperwork required, means this is almost never a quick process. Raising venture capital in three months, for example, is considered lightning fast, particularly for a first-time entrepreneur.

Engaging Moonlighters

When the Moon Hits Your Eyes

When you're in the early stages of launching your technology-enabled business and don't have the resources to go whole hog, working with moonlighters is a popular way to go. We'll define moonlighters as people who are working on your project outside their primary job. They might have a day job and work for you at night (hence the term) or they might be an internal resource at your company who have been assigned to help you get your project off the ground but still have other primary responsibilities.

Taking this approach has several virtues: It costs less than a dedicated full-time resource, and both parties get to see how things go before they commit fully. Of course, it has downsides. If you're the primary force behind the business, remember that you're probably third on the moonlighter's list: Their main job is first, their social life/family is second, and your project follows (the first and second may well be flipped, but the point is that your project is almost always third). If their dog needs to go to the vet, that time is almost certainly coming out of the time they'd set aside for your project.

If you're hiring a moonlighter (engineer) on contract, you can expect to pay between \$50–\$120/hour in the United States. Shorter projects with more specialized expertise and seniority will run on the higher end of the scale. If you manage to find someone offshore (in Eastern Europe or India, for example), you'll likely pay \$20–\$50/hour with the same drivers on the range. One approach, which is great if you can do it, is to pay the moonlighters in whole or in part with equity. If you do this, do not make the mistake of vaguely promising them a piece of the action. You'll likely end up with a mismatched set of expectations on both your parts at just the wrong time. Even though it's hard to do for an early-stage company, you'll need to establish a value for your venture and for the moonlighters' services and then agree on how the moonlighter's interest in the company accrues.

A final note on moonlighters: You may start out with one contractor that's quick, easy, and inexpensive and fill out your team later. Don't be too surprised if a lot of the product needs to be rewritten. Though there's a tendency among engineers to want to build everything from scratch, early code that's written for demos usually includes lots of unpredictable changes at the last minute, often ends up squirrely, and needs to be redone.

Moonlighters and Enable Quiz

Let's say Andrew has identified a contractor, Rajeev, who's interested in working on the project. Andrew's interested in proposing that Rajeev be compensated in sweat equity, at least in part. He has estimated that a prototype will take 320 hours to build. Andrew knows that Rajeev's usual rate is \$80/hour, but he'll probably have to pay him more since it's a small project and Andrew's proposing he be paid in equity. After looking at public companies and startup valuations, Andrew has established that Enable Quiz is worth \$1,000,000. Based on all this, he formulates the table shown in Figure 1.19.

Rajeev would receive a 3.2 percent stake in the company for doing the prototype. Good deal? It depends on Rajeev's perspective. Unless he is highly invested in the project and wants to become a full-time employee once things get off the ground, he'll almost definitely want at least part of his compensation in cash. But, hey, if Andrew is bootstrapping, it's certainly worth a try. Regardless of how Rajeev is compensated, Andrew knows Enable Quiz will be third on Rajeev's list.

Weeks of Labor	320	a
Rate/hour	100	b
Dev. Spend	\$32,000	c = a * b
Valuation	1,000,000	d
Equity Stake for Rajeev	3.20%	e = c / d

note: the "*" symbol means multiplication, like the

Figure 1.19
Valuation and
Equity Stake
for Contractor

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The other aspect of the contract with Rajeev is timeliness: Andrew will work out a specific schedule with Rajeev that includes weekly milestones. This is a good exercise in general since it pushes the developers to think through the project in a step-by-step fashion if they haven't already. The question for these kinds of arrangements is "What happens if you're late?" called the "remedy" in legal parlance. If this happens for a big project, a contract developer might agree to discounts. However, that's unlikely because even then customers frequently change their requirements. At the time of this writing, there is an abundance of software development projects and a shortage of good engineers. The best you'll probably do with the schedule is to establish a set of expectations. If the engineers are systematically late because they're unable (time-wise or skills-wise) to work on your project, the best you can do is pay them for their work to date and part ways.

Beta Customers

We've reviewed options on financing the venture. Every financier will tell you that the best money you can acquire as a new venture is a customer's money. You may hear stories from the late 1990s and early 2000s in which a large company gave a startup a million dollars to solve a big problem for it. Though that kind of situation is rare now, many customers commonly commission a small company to build a piece of software on a custom basis. In those situations, the company (seller) sometimes arranges in its contract to provide the software on a royalty-free, nonexclusive basis. Basically, this means that once you provide the software to your buyers, they can do with it whatever they want and so can you.

On the surface, the customer may have a reaction such as "We're paying for this. Why should you own it?" The answer has a couple of facets. First, if you've won this business as a small company and it's strategic to your growth, you probably have some specialty expertise. This expertise in the customers' industry allows you to build better software at a much lower cost than a generalist the customer would hire off the street. Second, your retaining ownership means that you may take what you've done and create a product out of it. Your creating a product out of your custom software delivery almost always accrues to your customer's benefit. If you deliver them a one-off piece of software, they will have to pay you for every change and bug fix (after any warranty period). However, if you decide to make a product out of it, they can elect for a support and maintenance contract. This contract will provide your customers with ongoing bug fixes and improvements for 10 to 20 percent of the purchase price, much less than they would have to pay someone on a one-off basis to implement fixes and enhancements (not to mention documentation and other ancillary benefits of having an actual product).

Finally, consider offering a discount if you're close to such a deal but not there with the customer: "Hey, we'll give you 20 percent off plus the possibility of incremental support and maintenance if you allow us to

retain the rights.” Alternatively, and this is probably a better option if you expect a lot of hand holding, offer to throw in more consulting hours rather than discounting the deliverable.

In any case, having a successful beta is your pivot point into a successful launch to the market at large. The following are four characteristics of ideal beta candidates:

1. Aligned with Your Product Direction

You may find exciting beta customers (willing to pay, friendly) who aren’t aligned with your direction for the product. They’re trying to fit a square peg into a round hole. Is this a deal killer? Not necessarily, no. It’s good to be pragmatic in the early stages of your venture (and often there’s no choice). You’ll need to balance the money and intellectual property you receive from the deal against its cost to you and the degree of intangible distraction from your core mission.

2. Willingness to Pay

If your product is for businesses, good beta customers will pay. Aside from the obvious benefit of the cash, a willingness to pay shows the customers are serious. You might think companies will be grateful and work to return the favor if you give them something for free. They may, and your particular customer contact is likely to feel a sense of obligation. But when it comes down to a difficult decision on priorities, which product do you think your prospective customers are going to take to make sure they implement properly: your free stuff or something for which management paid a lot of money?

3. Friendliness

What I mean here is that customers have a genuine interest in being friends of your company. Friends make a commitment to each other based on a set of shared values, interests, and general affinity. Don’t discount this aspect of your relationship with beta customers, and remember that the higher up in their organization the friendship goes, the more significant (economically) it will be.

4. High Regard

One crucial aspect of your beta relationships is that they’re referenceable. If the beta is successful, you should have a specific arrangement in place to use the customers as a reference (by way of a press release, quote on your website, case study, and so on). Your ideal beta customers are well-regarded thought leaders in their industry, something that will greatly enhance their value as a reference.

Your obligation to your beta customers is to deliver what they expect, on time. In the next few chapters, we review how to further refine your strategy, design your product, and deliver it in a timely fashion.

Once you have an idea and a basic understanding of how to go implement it, you need to figure out your company’s strategy. In the next chapter, we work on company strategy.

Chapter 1 Summary

1. Find Your Pony
The most powerful ideas come from direct personal experience with a problem or desire. That said, it's a good idea to do some reality testing with other potential users to ensure you're on to something. For target users who get the idea, it should be like a kid who's been told they're getting a pony.
2. Reality Test
Think of your idea as an experiment. Presuppose whatever you want, but identify the key assumptions that need to be true for you to succeed. Then design experiments to validate your assumptions, moving from the quickest, most valuable experiments to those that take more time and investment.
3. Survey the Landscape, Stake Your Claim
A good software concept needs careful assessment as to what it does and doesn't do. While determining the scope of your product, make sure you know how it fits in with your user's related business processes or activities. Also, consider potential partners and how what you're doing fits in with their business. They may become important as sales channels or investors.
4. Consider Your Platform
There isn't just one way to launch a tech business. In addition to the possibility of starting the business in your garage and later raising venture capital, don't discount the possibility of launching the business inside your existing company or supporting the venture with relevant consulting to fund your development.
5. Beware Moonlighters
Moonlighters may be your only option, but remember that you won't be #1 on their priority list and it may swing your timelines. Also, don't play fast and loose with equity—if you want to pay the moonlighter in equity, agree on specific parameters in advance.
6. Groom Your Beta Customers
Getting beta customers is great, but you want to make sure they're aligned with your direction, willing to pay (if applicable), and will serve as a good relationship and reference if you're successful.

Checklist

At the end of each chapter, we'll review a checklist. Naturally, you don't need to be able to answer each of these questions to read on, but having thought through these will help you move on to the next chapter.

Can you answer each of the following five questions for your technology-enabled business?

1. What is my product and why does my buyer (user) want it?
2. User Profile: Do you have a detailed, empathic description of your buyers/users? Write as much as you can about your audiences and how you foresee them using your product. Who are they? Where does your product fit into their job? What's important to them? What training/perspective will they have when they sit down to use it? Samples for these items are available on AlexanderCowan.com/busplan.
3. What are the key assumptions I need to prove so I know this product is commercially viable? How will I prove it quickly and cheaply?
4. What does my product do versus not do? What are the adjacent products and systems and how does my product fit in with those? How do I need to work with those partners to deliver a comprehensive solution to my target customer?
5. How do I plan to launch this technology-enabled business? Is it a project within my existing company? Will I be building it myself, bootstrapping it, and so forth?
6. If you're using moonlighters, do you have a structured set of deal parameters and expectations?
7. Who are some potential beta customers? Who are the *best* potential beta customers?

You'll find Enable Quiz's work on ideation and reality testing on AlexanderCowan.com/realitytest.

Specialty Reading by Topic

This section appears at the end of every chapter and offers further reading if you want more depth on any of the topics mentioned in the chapter. You do not need to read these books to go ahead with your venture, let alone proceed to the next chapter. However, they provide more detail on some of the topics that we might only discuss briefly within the chapters themselves.

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If you want to know more about then read
Iterative Customer Development	<i>The Four Steps to the Epiphany</i> , by Steven Gary Blank This seminal work details the process of characterizing your customer and your market and systematically progressing to a successful outcome.
Adaptive Product Development and Management for Startups	<i>The Lean Startup</i> , by Eric Ries Eric Ries is a successful entrepreneur and frequent speaker. In this book, he marries lean management techniques and agile methods to excellent guidance for any company operating against uncertainty.
Leveraging the Internet with Low-Tech Business Models	<i>Get Rich Click</i> , by Marc Ostrofsky Marc Ostrofsky describes himself as an “Internet wildcatter” and has a long history of identifying opportunities online to make money with low-tech approaches.
Website Tools	Alexander.cowan.com/sitetools

<http://www.pbookshome.com>