INTRODUCTION

Who Is This For?

What you <u>want</u> to hear.

If I had picked up this book, I'd probably want to learn how to bring my idea to market and build a successful company as quickly as possible. And like me, you would probably want to learn a list of steps to take, a magical path that will insure wealth if you just touch each stone I lay out for you.

What you <u>need</u> to hear.

Sorry. It's not that easy. Most idea-generators have this opinion that their idea smells like roses, or at least has no odor at all. Don't get me wrong, some ideas are huge and wonderful, but some are truly not worth the time and money it would take to develop. This book is basically about one fundamental concept:

> **If you don't develop a motivated customer, you don't have a product to build a business around.**

You will read that message in different forms about a million times in this book. But, there's another critical question.

I have created really cool products that I never sold. It was the creating that I loved, but I didn't have the faintest idea of how to market and sell them, so I dropped them and went on to the next shiny object. Marketing and selling a product takes as much passion and commitment as it did to create the product.

An important thing you have to think about up front is simply: **why am I doing this?** If you just want to create cool things, that's great. But, if you want to spend the brain tissue and time and energy creating a way to make money, there will be a point at which you have to *SELL* your baby. That's a lot different enterprise than *creating* a product for fun. It takes a commitment to marketing and dedication to the often boring steps of selling. But, it starts with a saleable product. That's what this book is about.

Do you want a hobby, or a venture?

What we'll do together.

We will examine a bunch a questions and processes in order to determine if, in fact, your idea can be sufficiently attractive to enough potential customers to justify building a product. A product, whether service, like landscaping or consulting, or a smartphone app or software or a physical product must have a value proposition in which the customer sees more benefit than cost.

The questions we'll look into are: Do you really have an idea worth spending time and trouble on? Do you really have the personality to bring a product to market? How do you find customers and make a product people will buy? Is the product really technically and economically feasible?

In this book, I'll be introducing the **ACE Methodology** (Assess, Confirm, Execute), which is a process of finding answers to these questions and bringing good ideas to market.

Fear, insecurity, uncertainty

If you aren't feeling any of these, you are a) not human, b) delusional, or c) don't really understand the challenges of becoming an entrepreneur.

By the way, it is GOOD to feel this way; it will make you cautious and realistic. The only way to have confidence that you can succeed is to have confidence that somebody besides yourself will believe in your product. That can only be proven by sales, which means having someone see a benefit for which they will give you money.

Confidence comes from developing a customer first and building the business from the customer up.

About The Author

Who am I to tell you anything?

I'll admit I have very little *academic* authority to write this book. I was an "Improvisational Entrepreneur", just making it up as I went along. I was a musician, an architect, an untrained engineer, real estate developer, a software developer, inventor, and a serial business-builder - I had way too many passions, aptitudes and interests, but no plan.

I learned the things I write about through trial and error, success and failure. My authority comes from hard-earned experience or smart observation and inspiration.

My perspective in writing this book is from the ground looking up—a place I have found myself many times—not from the perspective of a hugely successful entrepreneur looking backward like so many other authors. Their stories often start with *"we hired some programmers and built a prototype. After six months we started selling the final product. We only did $1 million in that first year, but 18 months later we sold it to Google for a gazillion dollars."* **I'm not that guy.**

How did they acquire the money to hire managers and sales people and programmers, acquire the computers and the office space, support themselves and find the guy who introduced them to Google? It seems like they were already at a pretty successful starting point doing ONLY $1 million. *That's a startup?*

I want to share how to GET TO that starting point.

I think the average Joe (or Jane) like us goes farther trying to hit singles and doubles than always swinging for home runs. I have been the guy with the "next great idea" and not having a clue what to do with it. Don't read me wrong: I have been mostly successful during my years of being an entrepreneur, but it sure wasn't easy or clear. There were no Google Maps or trip-planner. Nobody was there to help me, to explain what I write in this book, to open my eyes to very basic things.

What has to be done and how to do it can become very muddy and blurry. I have suffered and overcome my share of "founder flounder", where there is a goal, but no clear path.

This book is about adding clarity to the process.

As I evolved as a business person, I realized that there was more structure to starting and running a business than I realized. When I just "winged it", it didn't always end well, but when I sat down to make a logical plan, things turned out much better. The challenge was in:

1. figuring out the plan using goals and logical processes;
2. following the plan with discipline and dedication.

I learned that instead of just spending money creating features because *I thought* they would sell *asking* customers if they actually wanted them would save a lot of time and money. Sounds logical now, but this was a hard lesson.

I built four successful businesses, one service-based (architecture), one asset-based (real estate development), a software-based company (simulation-based training), and a mixed service/product company (learning software and technology). After selling the software companies, I "retired" and tried to start two physical product companies. I quickly realized that I didn't know squat about it. It was a steep learning curve and they failed before I figured it out. **If I had to do it again, they wouldn't fail.**

Don't discount the validity of *"failure-based learning"*.
Don't be afraid to fail and figure out why.

What I *did* realize was that there were many basic things that linked all of the business types I built. This book is a result of a lot of contemplation on those common threads.

What I won't discuss

I won't talk about *franchise deals,* supply chain or business management or financial systems, cash flow management or hiring practices or HR policies or detailed marketing strategies—buy another book for that. I touch on, but don't get heavily into, conventional business planning or finding investors. I can only write about what I know and have learned: The common sense involved in establishing the foundation for a successful business.

I'll share stories that make me look stupid and ones that make me look pretty damn smart, but I won't talk about what I haven't experienced and learned.

Reality Check

Why this book exists

This book is not about RUNNING a company. It's about setting up a solid foundation for BUILDING a company.

The first reality is this: building a business ain't easy - 80% of startups fail inside of two years. Success takes time and commitment—and planning.

"Wishing and hoping" is not a strategy. "Build it and they will come" only works in movies. The reality is that your BIG IDEA may not be such a great idea after all. Why? Because maybe you are one of a small number of people who think the proposed problem exists.

Believing in something is a wonderful thing, but believing in something that doesn't really work is not. **If you don't have a problem shared by a lot of other people who urgently need a solution, you won't have customers.** It might be stupid.

This book will help you build a plan based less on emotion and more on the logical construction of proven assumptions. Emotions muddy the water. Logic offers clarity. *The Strong Startup* offers a roadmap—you provide focus and do the work.

What Is The Ace Methodology?

This book comes from forty years of crap I should have avoided and four years of learning what I did wrong, and right. I studied Steve Blank and Alex Osterwalder and Eric Ries and others. I sorted and combined, mixed and condensed and analyzed and re-sorted all the information, blending it with my experience to come up with *The ACE Methodology*, a sensible and logical road map to building a business. It's more real-world than academic.
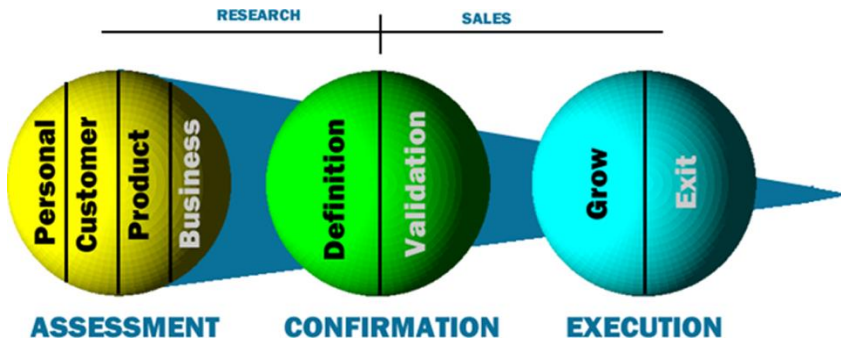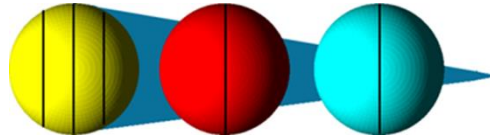

ASSESSMENT
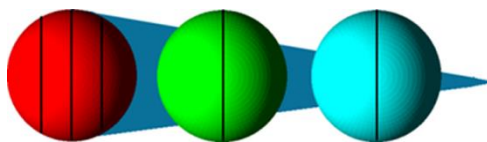
Assessment is about understanding **yourself,** your **customer,** your **product** and your **business idea**. First, we will discuss *whether or not you have what it takes to succeed as an entrepreneur*. Then we will critically examine customer, product, and business

assumptions through filters to see if *they* make sense. We will develop and **assess** the initial Product/Customer match and lean business-building criteria by developing an ***Initial Assumptions List* (IAL)** which we will test and confirm in the *Confirmation* stage.

CONFIRMATION

The two phases of the *Confirmation* stage are ***Definition*** and ***Validation***. We will test and clarify the *Initial Assumptions List* through research with a broader group of potential customers to create a strong ***Definition*** of the product and the target customer. Then we will ***Validate*** that new set of assumptions by seeing if we can actually sell the product to real customers. The goal is to **confirm** we have a strong set of assumptions upon which a business can be built. The product design will develop through customer feedback, which will result in a Minimum Viable Product, a minimum set of features that will provide the maximum customer acceptance. You will leave *Confirmation* with a ***Proven Assumptions List* (PAL).**

EXECUTION
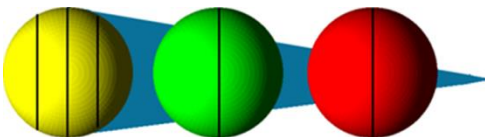
Once you have a viable set of product and marketing and business-building assumptions built around your Confirmed assumptions (PAL), you **Execute**, building the business around them. Keep in mind that at some point, you'll exit the business.

Some Basics To Think About Up Front

There's a process

I learned simple things in my development as an entrepreneur, like: **Without a compelling Value Proposition for a large number of customers, you have no Product. No product, no business.**

It really doesn't matter if *you* think it is a good idea or not. Unless other people agree, it's dumb.

You are NOT the customer. Only the customer can tell you if your product has enough value perception to buy.

Why do you need this book?

Using a sailing analogy, the best way to find the rocks is by reading a chart, not by running into them. It starts pretty simply, really:

Your product can provide a **solution to a problem**. It can also offer an **opportunity for gain**. A sale happens when you match your product with a motivated customer to create a **product that fits the nature and needs of the customer**. That happens when the customer finds in your product a compelling **Value Proposition** where benefit exceeds the costs of acquiring it.

A successful product offers a compelling solution to a problem shared by lots of people who are urgently looking for a solution.

Once you can prove those conditions exist, you have what you need to convince friends and family and investors you are on the right track. This concept is critical and transcendental; it follows your journey up the ladder.

A problem is a *pain*, like hair that sticks out in the morning. A solution is a haircare product that will smooth it down.

And an opportunity for *gain* is a haircare product that makes one look more glamorous than the other actors as they go in for an audition. For some it is partly "need" based because if you have the need to be a star, it's more of a solution.

*A **product's value** is often a combination of pain and gain. Whichever, a positive value has to be created in the buyer's mind strongly enough to where the buyer says "this is worth buying". If you don't reach that point, you don't have a viable product.*

Let's say you have developed a faster laser printer for commercial printing companies. The customer's problem isn't that they needed a new printer but currently that they can only print 100 pages/hour. Since they are paid per print, the "need" was to make more billable prints. Your faster printer gave them the opportunity to make more prints and more money.

You aren't selling a product; you're selling a SOLUTION or an opportunity for GAIN. Last week, Home Depot sold about 10,000 half-inch drill bits to customers. How many of them wanted a half-inch drill bit? None of them. *They all wanted a half-inch hole*. If that hole was in a product that could then be sold for a profit, there's an opportunity for gain. But that's silly.

Know the Nature of your Product/Customer Fit

Your expectations and strategy has to change depending on the market into which you're placing your product.

Existing Product/Existing Market. You can be placing your product/service into play where there are similar and

established competitors. A landscaping startup is an example. Customers already understand the problems, needs, and solutions you are trying to provide. You don't have to educate them or sell them on the problem, just your solution.

New Product/Existing Market. It gets a little muddled if you are presenting a new product into an existing market. They don't so much need education on the general problem, but they need to understand that your product can solve the problem that a) they didn't realize was as important as it is, or b) didn't know could be solved so well. You sell your product by how it works better. Pencils and fountain pens were a terrific solution to an existing problem, but when ball point pens came out, people started to realize that pencils and ink were messy. Think of more examples.

New Product/New Market. Maybe you are presenting a brand new product to a new market type. People don't even understand there is a problem to be solved or a gain to be acquired, yet. Cellphones, Twitter and FaceBook are examples. You have to first educate them that there is a need before you can sell them on your solution. Who knew people needed to communicate in 140 character messages so badly?

The big goal is to create a PRODUCT/CUSTOMER FIT where the product offers a compelling solution for people who urgently need a solution.

Allocation of Time and Work

The allocation of your time and work in each stage changes
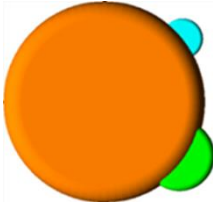
ASSESSMENT: It should be mostly about **Customer Development**, less about **Product Development**, and very little about **Business Development** at this point.

CONFIRMATION: **Customer Development** is still primary, but **Product Development** should attract a lot more attention. **Business Development** is more about creating a lean infrastructure to support the customer and product development.
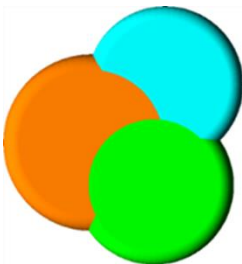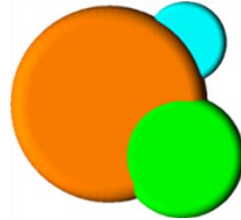
EXECUTION: **Customer Development** is always priority, but **Business Development** takes a bigger role. **Product Development** should be reactive, not proactive, for a while at least. Consolidate and absorb, analyze feedback and tweak the Minimum Viable Product ("MVP"). Build a base.

Understand Your Goals

Product, Business, and Personal Goals

Goals are the pillars of success; if you don't know where you're going, you can't find a way to get there.

The overarching goal of any enterprise is to build a business around a strong Product/Customer Fit that is also consistent with the entrepreneur's passions, nature, strengths, abilities, experience, and knowledge. We'll talk about this more in Personal Assessment.

Goals and Exit Strategy

Going *into* a business infers that at some point you want to come *out* of a business. Your business goals have to align with your values and personal motivations. There might be three basic exit strategies that fit your personality.

Goal: Sell. If your goal and exit strategy is to build a successful business and sell it in a few years for the maximum value, then you should build your business around **recurring revenues**. Sustainable cash flow has a high value multiplier.

Goal: Enjoy and Sell. If your goal is to build a business doing something you totally enjoy doing but also want to sell at some point, then your business model might be a **combination** of building a rewarding environment and recurring revenues.

Goal: Enjoyment. The lawyer who quits his practice and opens a dog-grooming service is an example of a business driven by pure internal reward. If he wants to retire, he can't sell his business because he *IS* the business. Plan to save as much money along the way as possible if this is the path you want.

On Planning

Planning is Essential in Moderation

Many founders spend so much time in the minutia and detail of the plan they lose sight of the big picture.
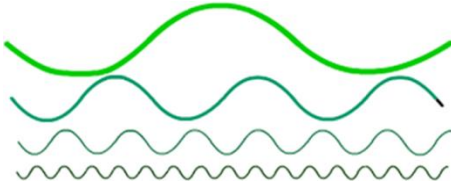
This is the "Wavelength" visual. There are **big concepts**, such as the top wave, with strategies of purpose, vision, and goals under it. These drive the increasingly rigorous degree of tactical detail below that **support** those big concepts, like working out your product's benefit package and the profile of a customer who might need it, engineering and marketing and infrastructure.

> *In my architectural practice I remember an employee who had a "thing" for strategically placing light switches in building plans. I asked him what purpose a particular light switch had, the design criteria behind the lighting plan, and traffic flow the switch was controlling. He couldn't answer. He only thought about where it "looked good".*
>
> *The lesson is that locating a light switch properly is more a function of how the lighting scheme fits into the building scheme and who uses it and where they are and are going when they need to light up something. That all has to be determined first – form follows function.*

Work on tasks in order of priority

Don't worry about execution before you verify that you have a Product/Customer fit worth pursuing.

Don't work long hours on a conventional business plan before you have a *business worthy of planning for.*

Don't design a feature you don't know anyone will want.

Don't market a final product before you have customer acceptance of the product concept**.**

Don't hire a salesperson if you don't know who to sell to and why they might want to buy your product.

There are strategies (what to do) and a series of tactics (how to do them). Keep them in order.

> *When I was a young architect, a contractor corrected me once on a job site when I tried to streamline the sub-contractor scheduling process. He pulled me off to the side and said: "You know you can't pour the concrete before the plumber lays the under-slab pipes, right?" Ummmmm. Sure…I knew that.*

Everything has a logical and practical order.

When you see this sign, stop and follow instructions. The ACE worksheet (Appendix B) will help you keep track of your thoughts as you go through the process. Download a copy at http://timothyfreriks.com/downloads and print it out. This will build the roadmap for your business.

> *Throughout the book, you'll see stories about my adventures and failures and successes. They are meant to illustrate points made.*

> *I include the story of my first software company, SimuTech Corporation. The story will unfold throughout the book, from the inception of the product idea to the exit twelve years later. This shows how a real company followed the ACE Methodology (without knowing it).*

I also weave the fascinating story of ChamPEEon LLC, a highly interesting (and off-beat), educational, and entertaining product and business model, throughout the book.