Review of Steve Blank's startup bible ***Four Steps to the Epiphany***
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Steve Blank is an entrepreneur and educator of some repute. In *Four Steps to the Epiphany* he outlines a four-step process to turning innovations into commercial successes. Covering the identification of customers, how they will be approached, and how they can be scaled up, it's a comprehensive guide to bringing new ideas to market and is already becoming something of a bible for startups.

Blank calls his overall approach 'Customer Development'. The phrase doesn't slip off the tongue easily at first, but it helps to think of it (in the early stages at least) as a parallel stream to Product Development – the process of perfecting the technical functionality of a new product. Blank's approach sees a customer development group refining the company's understanding of the types of customer it will serve and which of their problems it will solve, while product development work through the familiar stages of concept, alpha and beta tests.

<u>The Four Steps</u>

In a customer development process, the first step – <u>Customer Discovery</u> – takes the initial idea or insight from the founder or product developer and seeks to unearth customers for whom it might be useful.

Customer Discovery isn't about market research has you may have met it before. Far from worrying about the random selection of survey respondents to match the general population, this is a deliberately targeted exercise. It's about speaking to people who you think are likely to be ahead of the rest of the market: people who are already fiddling about with their own makeshift solutions to the problem you seek to solve, and people who can provide you with ideas about what the others might want. This isn't an original idea of Blank's. Several years earlier, Geoffrey Moore describes how customers who recognise they have a problem are likely to be those most amenable to your new way of a solving it.

The next step, <u>Customer Validation</u>, is a stop-and-check stage which adds some commercial overlay to the needs discovered in step one. Its purpose is to determine whether there are sufficient numbers of suitable prospects who you might be able to convert into customers. One outcome of this step is to build a repeatable sales process by answering questions about why and how the right people will buy.

Here, Blank introduces us to four types of customers. The awkwardly-named earlyvangelists are the ones you want at this point. (This group corresponds to what Eric Von Hippel has termed 'Lead Users' – an eminently preferable title.) Early Evaluators are tyre-kickers best avoided, while Scaleable Customers and Mainstream Customers are best left alone for the time being. As has been observed by Geoffrey Moore and Bill Davidow, mainstream customers want to buy the 'whole product': a fully-functional package rather than something they will need to piece together or configure themselves.

Customer Creation is perhaps the most insightful chapter, and is the one where Blank's 'market types' (to which there have been several passing references up to this point) are explored in full. Here the terminology gets a little confusing, since it becomes clear that the 'types' are both about how the company chooses to see itself *and* the external circumstances the firm faces. For the record, there are three market types for a new product:

⇒ An existing market
⇒ A new market where there are no competitors
⇒ A resegmented (existing) market, where the new product is positioned as a niche player or a low price alternative

Considering this list, it's worth remembering the old marketing adage from Reiss and Reiss: "if you can't be first in a category, set up a new category you can be first in".

For an existing market, the primary promotional objective is to take share from incumbents. In a new market, share is irrelevant ("Therefore spending money on a massive launch to generate customers and market share is ludicrous"). In a resegmentation situation, the marketing task is both about share and about re-education; encouraging customers to see themselves and their market in a new way.

The last step, Company building (which is presented in a more abstract manner than its predecessors) is where marketing meets operations. Although Blank doesn't explicitly say so, this stage occurs after the traditional product development cycle is completed. Here *Four Steps* aims to explain the missing link between successful innovations and successful companies with commentary on company culture (Blank believes companies should progress through a three-stage lifecycle of development-, mission- and process-centricity); on decentralisation and hiring; on responses to competitors; and on sales rates.

Typically managers are inclined to think of the typical startup runrate as a hockey-stick graph, characterised by a slow start followed by accelerating uptake. *Not necessarily so*, according to Blank, who envokes Geoffrey Moore's *Crossing The Chasm* to show why. He believes that The Chasm (a difficult and often slow bridge between innovators and mainstream customers) is only relevant in new and resegmented markets, and that we therefore should only expect the hockey-stick sales graph in these cases. According to Blank, when a startup is launched in an existing market (ie against similar competitors), success should be a fairly consistent straight line sloping upwards. Since there is no need to educate the mainstream market about the product category in general, any other shape of line means that the firm has failed to adequately explain why it is valuable versus its competitors. If the rate of sales starts to trail off, it is unlikely to tick up again without some sort of change to the product offering.

Wise words indeed, and as with so much of this book, enthusiastic start-ups could do well to take note.

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