



Nuts and Bolts of New Ventures

Finding your customer

(Great technology is not enough...)

January, 2017
Bob Jones

Agenda:

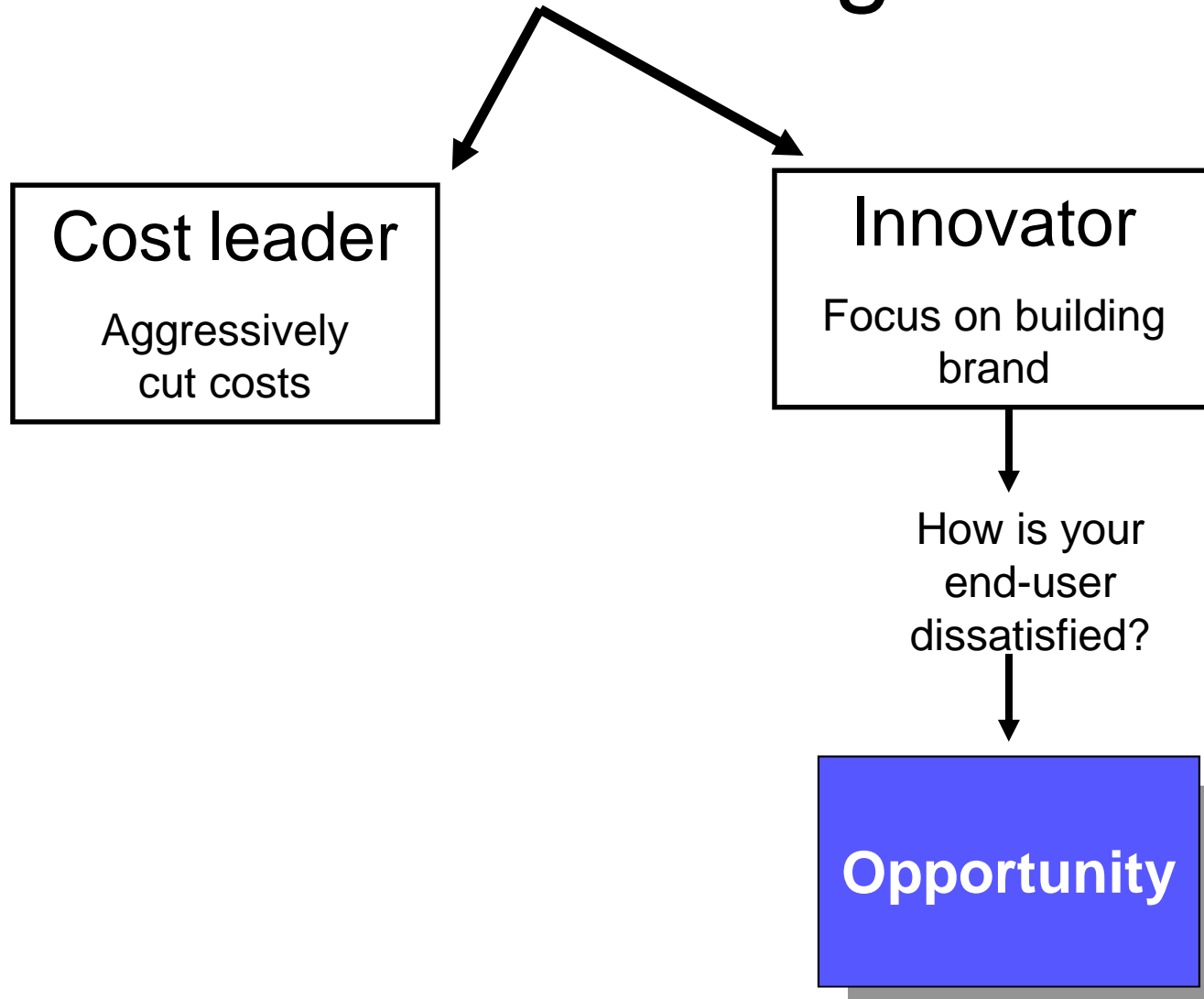
- Introduction: tell me what you're working on
- I'll try to provide a few hot tips to
 - Find your customers
 - Succeed with your business
- Two examples of product launches
- Lessons
 - That you've learned
 - That I hope I've learned
- Your turn; Conclusion

My background

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



Two success strategies





YOUR BUSINESS WILL NOT PROSPER UNTIL YOU KNOW:

What am I really selling?

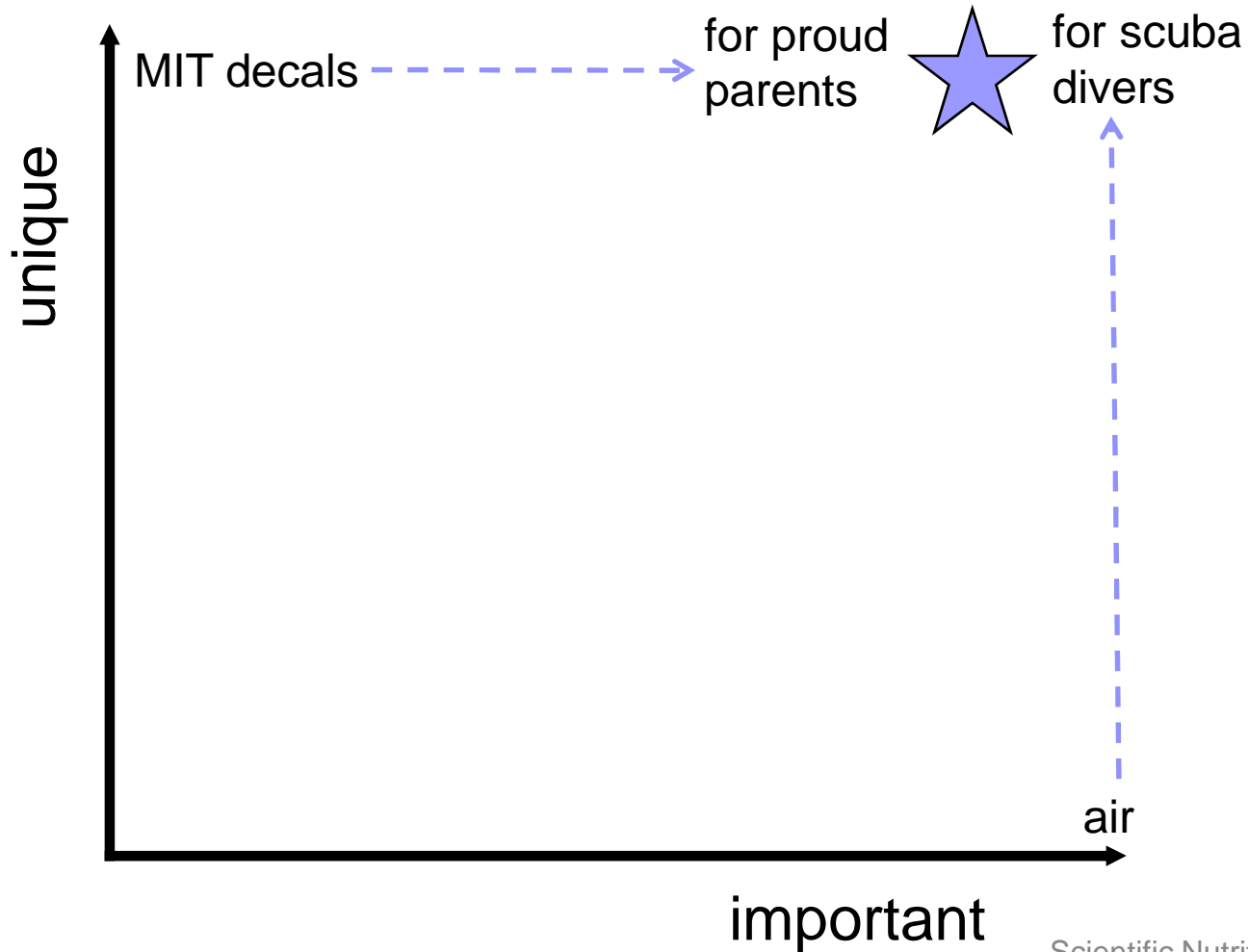
Who wants that?

How do I find them?

How does that affect raising capital?

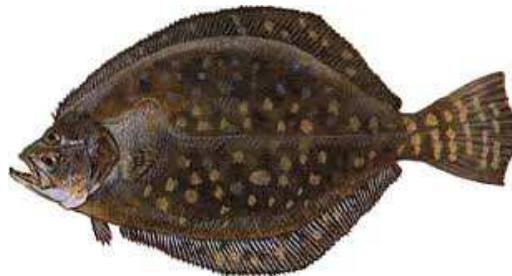
- A standard concern for investors: FEAR that you will lose the money
- Primary goal: determining if you have a chance of succeeding with your business
- Non-negotiable requirement: CUSTOMERS
- Therefore:
 - Do you have any customers? Will you have any? Do you even know that you need them?
 - How will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

Two descriptors you want



The point:

- Figure out who will find your offering to be both important and unique (or at least, better...)
- Figure out how to find them, tell them about your offering
- Take their order
- What if you can't meet those first two requirements?



(Hint: what kind of fish is this?)



Example #1: Regain®

Nutrition supplement for
patients with renal failure

Background

- I was running the clinical nutrition division of a California medical company
 - \$300MM company, on track to go public → we'd all make \$\$\$
 - Nutrition division was very profitable business
- Saw impending market changes → my business would go away → threatened our ability to go public (oops...)
- I wanted (and needed) to explore new opportunity
- Potential re-positioning of corporation
- First in country to do this → no model for success existed

The market/customer need

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

Clinical question: does it work?

- Ran clinical trial (even though it was not required for non-Rx products)
- Got results published in *Annals of the National Kidney Foundation* (peer-reviewed, prestigious)
- Bottom line: solid scientific support → product measurably improves patient health

Our business planning

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

The result: DISASTER

- Sales < 10% of forecast



Why?

- We surveyed the clinicians, but:
 - they don't buy it
 - they don't eat it
- When we finally talked to the patients
 - they didn't want it
 - they couldn't afford it
- Retailers: won't carry it



How did this affect me and my job?

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

What we did about it

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





Example #2: NiteBite®

*Timed-release glucose bar™
for the nutritional management of hypoglycemia*

New company, new product

- Moved to Boston, launched new company with Harvard scientists
- Triaged their current projects → none had a near-term payoff, developed new business plan
- “Let’s develop/sell product in a field that’s big enough to get noticed, small enough that we can handle it”
- Selected diabetes as field, based on an intuition about something the customers needed and weren’t getting

The market/customer need (then)

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

Medical background

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

Hypoglycemia at night



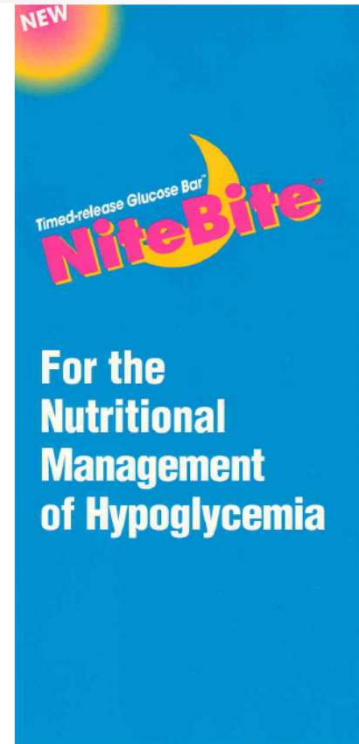
- Insulin users typically eat a night-time snack
- Very important: prevent hypoglycemia without causing hyperglycemia
- Consequence: constant anxiety trying to manage evening regimens of insulin & night-time snack
- But there was a bigger problem...
- Greatest fear: "...dying in my sleep"

Our answer: NiteBite®

Timed-release glucose bar

for the nutritional management of hypoglycemia

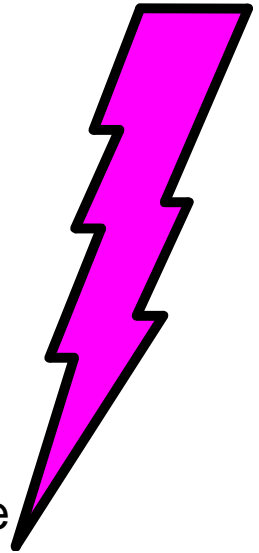
- Patented formulation: nutrients that turn to glucose at different rates: called it “timed-release glucose”
- Designed to lower incidence of hypoglycemia without causing hyperglycemia
- Tasty; non-medical name, packaging (Why?)
- Looks like “energy bar” rather than “medicine”



Our business planning

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

The results: very exciting

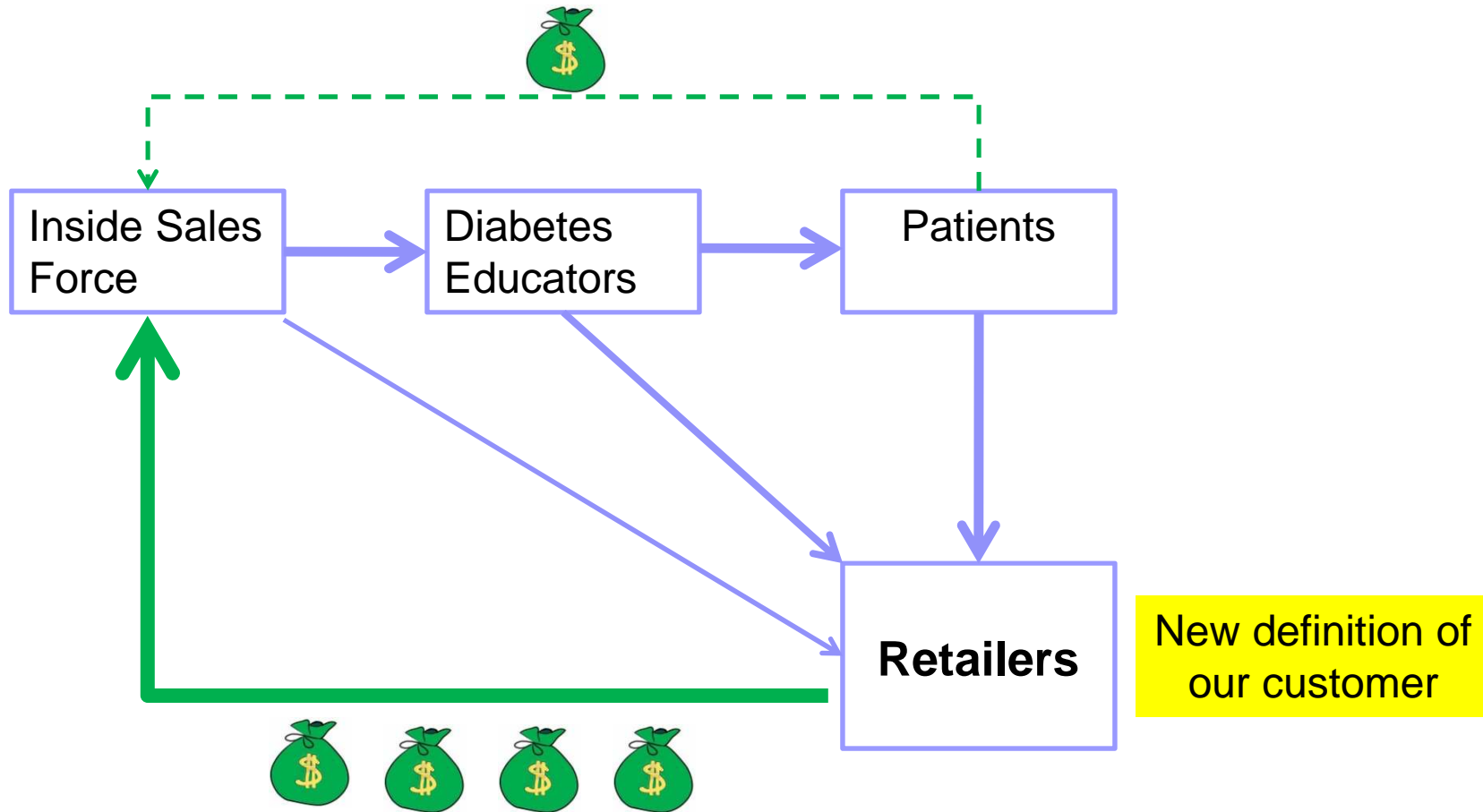


- Ran ads:
 - At 100 calls/day, we got more phones
 - At 200 calls/day, hired more sales staff to answer the phones
 - At 300 calls/day, installed a database to track all these people
 - At 500 calls/day, rented tables & chairs to hold the extra computers, started training our new staff → we might be onto something
- Hired/trained inside sales force
- Penetrated all major pharmacy chains & were stocked in all major wholesalers without ever paying slotting fees (very difficult)
- The lesson: understanding our customer helped us invent a better product and build a successful business

How we reached our consumers

- Questions we asked about our target consumers:
 - Where do they look for advice? What do they read? Who do they believe?
 - Where do they spend their money to address this problem?
- The best answer: Certified Diabetes Educators
 - Learned about the AADE, learned about “locate an Educator”
 - What do the CDEs worry about? How can we help?
- What we did
 - Hired team for Inside Sales, trained, monitored and paid them
 - Eventually: several thousand advocates working on our behalf

The Selling Flow Chart



Getting into retail channels, 1

- Our ads generated incoming calls from consumers:
 - Qualifying questions
 - Right answer → free sample
- Follow up with consumers:
 - Did you get our product? Your reaction? Open-ended questions...
 - For a limited time: free shipping – would you care to order?
 - Then: aren't you about out? Time to re-order?

Getting into retail channels, 2

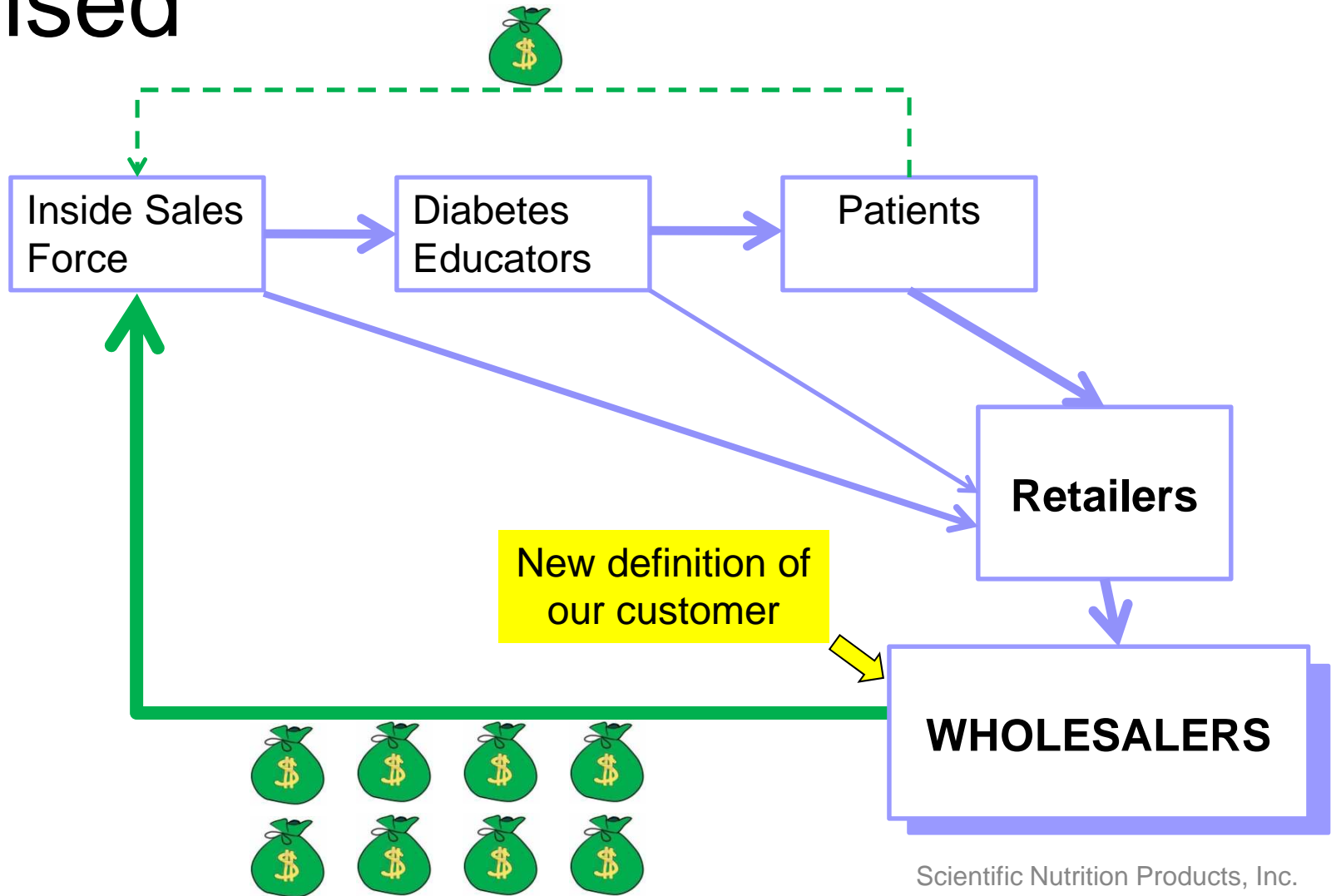
- The close (consumer):
 - No more free shipping → Would you like to buy NiteBite where you buy your insulin?
 - Where's that? May I call them?
- The close (pharmacy):
 - “Your customers want our product & you don't have it”
 - “What can we do about that?”
 - We took their initial order → re-orders at larger volumes
- No one ever mentioned “slotting fees”
- What gave us that negotiating power?

Leveraging experts (for free)

Who influences your customers? What do they care about?

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

The Selling Flow Chart, revised



Turning up the heat...

New customers: wholesalers and major chains

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

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

- No mention of “slotting fees”
- What gave us that negotiating power?



Results, in conclusion

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



Conclusions

Lessons and questions



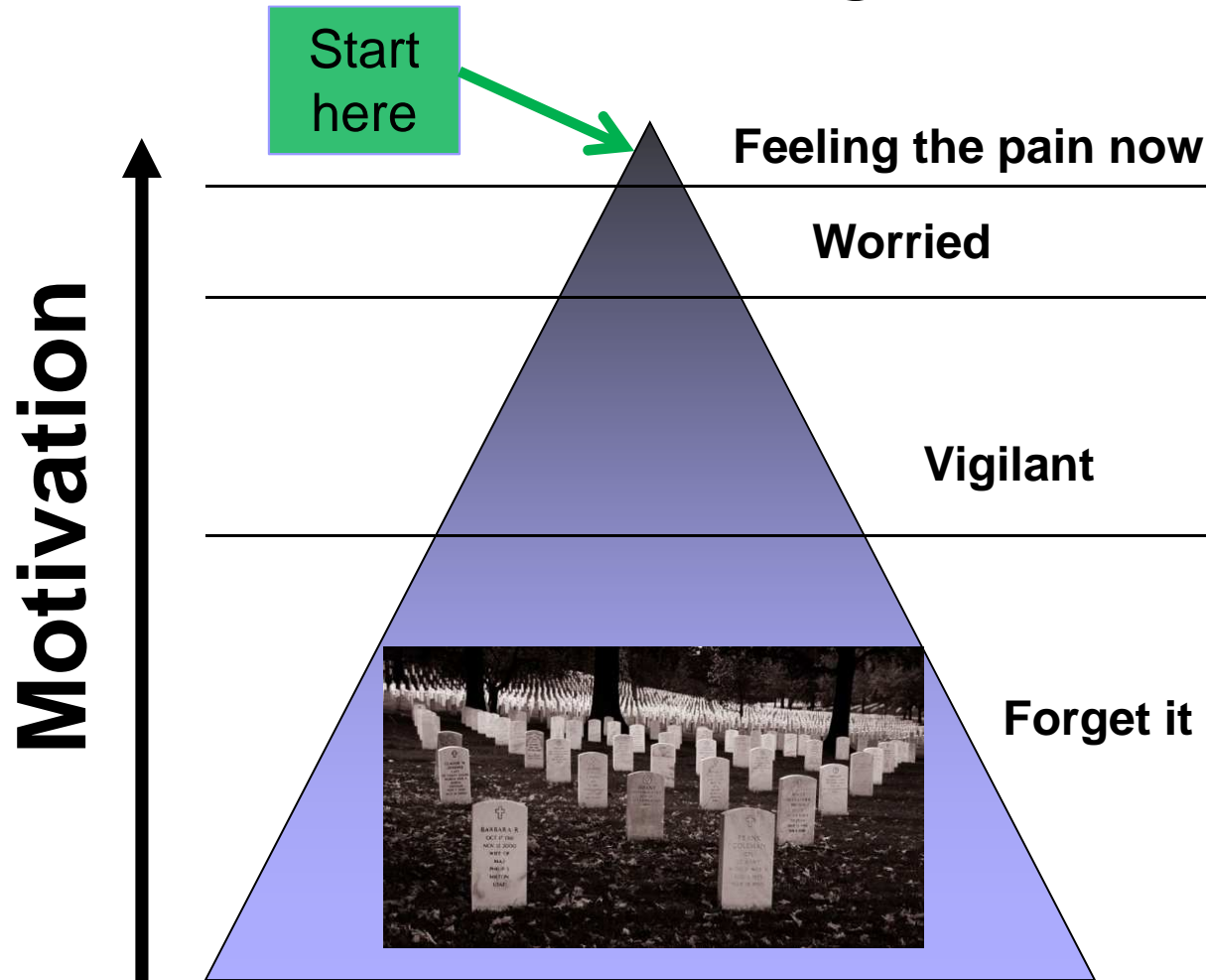
Lessons

- I've learned a lot of lessons from my (sometimes painful) experiences
- Help me summarize them
- What should I have learned from these experiences that might be relevant to building my next sales model?

Lessons I hope I've learned

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

My view: market segmentation



Changing buying habits

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



Power marketing: in two easy steps

- Find out what your customers want

- Give it to them

FOCUS: imperative in new firm

- Pick 1-3 well-defined market segments that you can dominate
- Succeed in those niches and get to critical mass
- Corny but true: “There is no hocus-pocus that takes the place of focus.”



A different way of looking at this

It's not sales, it's forensics...

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

Ways to do that:

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

You do have competition

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

Customers buy **VALUE**

More lessons re: building the sales model

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

Acid test: the 30-second sell

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

Sales-related questions you should ask

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

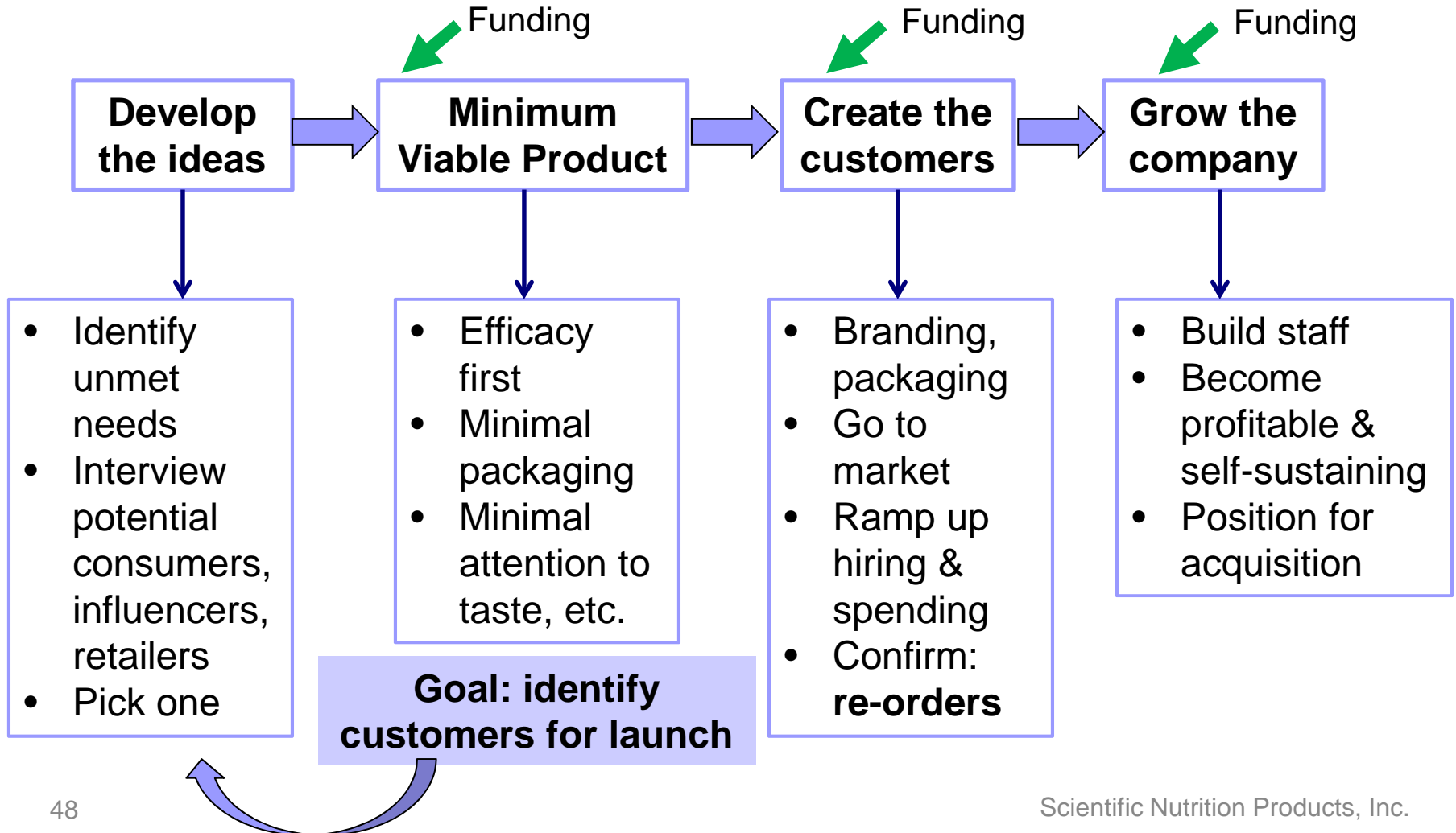




Crafting the 30-second sell

- Let's try this process now...
- Tell us about your business idea
 - Let's ask a few questions
 - Let's try to create a quick summary of the target customer and the benefits to those customers
- Who'd like to get the benefit of our collective wisdom?

Lean start-ups and the “Minimum Viable Product”



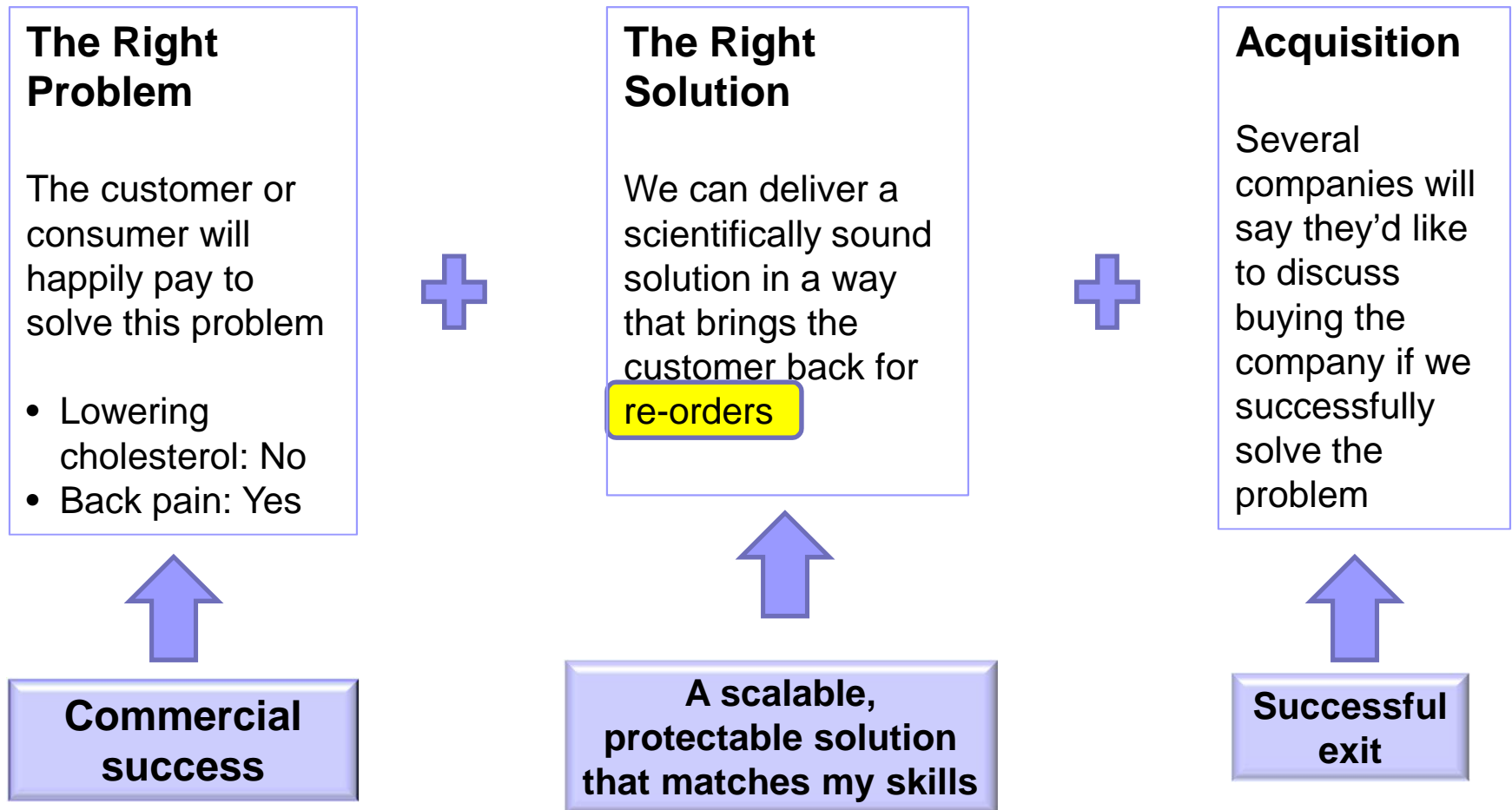


What I'm doing now

Practicing what I'm preaching...

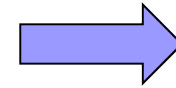
Three key criteria for building this venture

This idea meets all three of these critical criteria



Food for Sleep

A science-based recipe



- Start-up
- We've made a 2½ oz. beverage to improve sleep and recovery
- Made MVP, ran market test in several market segments
- In the market: August 2014; Initial distribution via Amazon (and us); researched/tested paying customers
- 1st: athletes – “better performance thru better sleep”
- Next: business travelers, the military/the Secret Service
- We're staying in touch with prospective acquirers
- Wish us luck...



Resuming...

Final questions

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





Your turn

Questions?

Summary

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



THANK YOU

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