

How to Choose the Right Customer | Idea to Startup

Podcast Ep. 5

Brian Scordato: [00:00:00] The most important decision you'll make as an early stage founder, the one that can potentially allow you to outperform and get some traction early, is who your initial customer is. There are a handful of things our founders have done during the early days that have drastically increased their chances of building a successful startup and choosing the right customers at the top of the list. Hey, it's Brian's Scordato and this is the Idea to StartUp podcast.

Brian Scordato: [00:00:34] Today, we're going to talk through choosing your initial customer.

Brian Scordato: [00:00:37] We'll lay out some tactics and a framework that'll give you a great chance at doing this correctly. We'll do it all through the lens of one of my favorite Tacklebox founders Jess. I do use the word "choose" carefully. We aren't here for just any customer. We're here to choose a very specific customer that'll give us a great shot at building something meaningful down the road. Almost all startups are just an exercise in customer segmentation. But before we get to Jess. I've got to eat my own dog food here for a minute. I preach constantly about focus about having a clear customer and doubling and tripling down on the differentiated value that you create for them. Yesterday were featured in The Apple podcast store as a new and noteworthy podcast. This is exciting. I've worked hard. I sat back and watched the subscribers roll in. As an aside, welcome to all the new folks. But as I watched, I felt that familiar pick grow on my stomach. The "uh oh maybe I'm not good enough to be doing this pit". The "Ok now I've got to do this seriously pit". You've probably felt it every time you stepped outside of your comfort zone. It shows up when the stakes get raised. This is the pit that tells you to be safe, to maybe take a week off podcasting because if I put out a bad one I'm going to piss people off and they're going to unsubscribe.

Brian Scordato: [00:01:53] This pit tells me to put out a podcast on generic stuff maybe. Just play the hits so everyone can get something from it and give me another week to prove myself. When I say it out loud it sounds ridiculous, but that is hardwired into all of us to be safe. It's human nature. Stakes go up and our risk tolerance goes down. And safe in startup terms means broad. It means you don't want to lose any

customers. It means you don't want to leave anyone out. Loss aversion strikes again. This will happen to you. It might be when you set out your first cold email or the first time a customer signs up or the first time you've got to speak with a potential customer about what you're doing. To help there is a mental model I use in these situations. I call it the startup smile curve. It's a graph so doesn't make a ton of sense to do over an audio podcast but I'm going to try and explain it anyway. I'll pop it in the show notes too. The startup smile curve is basically a graph that looks like a big "U". It kind of looks like a smile. On the x axis is the number of customers that you're serving and on the y axis is the amount of value you can deliver to them.

Brian Scordato: [00:03:01] The basic idea is, early on when you have very few customers you can provide a ton of value. As you slide along the right, on the graph, you are serving more customers but you're providing less and less value until you reach that pit of the smile, sort of the chin area where no one's really happy with you and you're kind of serving a bunch of people. If you continue to move right on the graph, the smile trends back up and this is where companies like Apple or Facebook or whoever else live. Companies that can provide a lot of value to a whole bunch of people. This graph isn't rocket science but the basic idea is that in 2019 there isn't much room for companies in the middle. You cannot provide something average to a big chunk of people. They're not going to stand for it. So you've got to be Apple or you've got to be way on the left side of the graph. I'm pretty sure I'm not Apple.

Brian Scordato: [00:03:49] Each decision I make at this stage is made through the lens of one question. Will this push me to the left of the curve or to the right of the curve? Will we provide fewer value to more customers or more value to fewer customers? My conscious decision is to always provide more value to very specific customers because I'm scared of the dynamics you need to have to live in the middle. That's where lots of venture backed startups live. Running on fumes, trying to sprint right as fast as they can hoping they can make it to the Apple side of the graph.

Brian Scordato: [00:04:20] Big picture - moving left allows me to focus. It allows me to be clear and obvious in my messaging in my product, gives me permission to lean into my differentiator because the folks I'm speaking to want that. No one needs any more generic startup advice. What they do need hopefully are clear frameworks and tactics for the first 12 months when you're laying out the foundation for your startup. I consulted

for a taco truck once, which explains my obsession with asking all the founders we interview about taco trucks, and they did some market research and realized that lots of people like really hot tacos and lots of people like tacos with no spice at all. They decided they'd make medium spice tacos so everyone would be happy. They didn't sell tacos for long. This podcast exists because we've helped hundreds of startups go through the early stages. The "I've got an idea and a full time job and I want to turn it into something that'll changed my life" stage.

Brian Scordato: [00:05:11] I know the tactics that they've used to be successful and I love telling stories. That's my unique venn diagram. As soon as I start thinking about how I can entertain the folks who aren't interested in that stuff, just the people who signed up because they saw it on the podcast list and Apple, I'm sunk and I'm in trouble. So today's podcast needs to double down on what I'm good at. We're going to talk tactics, we're gonna talk hyper specific stuff about the customer I can help most and we'll probably lose some folks along the way. We might get some heart wrenching two star reviews. Please, no one stars folks. Let's be civil. But for the people that stay, we'll continue to try and provide crazy value. That's the point. Vertical not horizontal. Deep and narrow, not shallow and wide. This is the way to build something in 2019 and I'm not sure that any other way works. Also please write and subscribe if you haven't. Just so we can balance out the unsubscribe you may get and save my sanity. The whole startup smile curve is way easier to talk about theoretically than actually implement.

Brian Scordato: [00:06:08] All right that's enough of that. Onto the good stuff.

Brian Scordato: [00:06:13] There's one decision you can make that'll improve your chances of success 10x. To talk through it, we're going to talk about Jess. Jess never started a startup before, she didn't have a co-founder and she had a full time job when she went through Tacklebox. She was still able to move at light speed and it was all because of her customer choice. Jess is cool. That type of effortless Brooklyn cool that 99% of us can't pull off but Jess somehow does. She's got short hair, styled than a pixie cut and to keep it looking the way she likes she needs to get it to cut a couple of times a month. If she goes to a salon it's too expensive, as it's the same cost as if you had longer hair. If she goes to a barber shop they screw it up and she definitely doesn't feel welcome there. Jess' idea was Cropped, a subscription salon for women with super short hair. For one price they'd be able to get their hair cut as many times a month as

they'd like. When I interviewed just for Tacklebox I was ready for a conversation based totally on logistics. We met in a coffee shop and I had a list of questions about things like sourcing stylists and pricing and churn and the funding needed for a physical space. But all Jess wanted to talk about with their customer. She loved her customer. She told me that short hair was a lifestyle. It was an attitude. Her company Cropped would be a lifestyle brand.

Brian Scordato: [00:07:26] The decision to cut your hair that short was based on so much more than just how it looked. It was a mindset. It was a conscious life decision. It was the culmination of a hundred other viewpoints. She'd stop and be stopped on the street by women with the same cut and then talk about where they got it. It often become friends. She told me all this I was a little bit skeptical but she was confident. In the end she was right. The focus on this initial customer opened up doors that most startups only dream of.

Brian Scordato: [00:07:57] How do you choose an initial customer? As I mentioned this will be the most important thing you do as an early stage founder. It'll also take a while. Whatever customer you think you'll work with initially, you'll likely need to continue paring that back. You'll get tighter and tighter around who your initial market is until it feels restrictive. That's how you know you're doing it right. It's critical to remember that everything is flexible early on. Jamming products down customers throats that don't want to will never work. You're small and nimble. That's your advantage. If people don't respond to what you're doing, move on. A good question to start with is "what's a market?". We've got a definition that served as well at Tacklebox. A great initial customer market has three characteristics to be a market. First, customers must buy similar products and have unifying characteristics outside of your specific focus. Second, customers within a market expect similar value from the product you'll build. And third, customers who are in a market speak with each other about the problem you're solving.

Brian Scordato: [00:08:54] Let's get through each of these quickly. First, customers buy similar products have unifying characteristics outside of your focus. Tacklebox the company that I've built is a terrible market. All of our customers come from every corner of the earth. I'm basically servicing anyone who has a startup idea. This can be someone at a bank. This can be a barista. This can be literally anyone and there's

nothing that really ties them all together other than the fact that they have a startup idea. This is tough because if your customers don't have a lot of other unifying characteristics other than the product you're building for them or the problem you're solving for them, it's gonna be tough to get in touch with them. Ideally you want customers like Jess's who have all sorts of things in common and that all culminates or includes the problem that you're solving for them.

Brian Scordato: [00:09:44] Second, customers must expect similar value. I think of this as the hotel criteria. You can't have a group of customers where some of the customers go to a hotel and they think it's a three star experience and some of your customers go to the hotel and think it's a five star experience. You're simply not going to be able to build a product that supports anybody with a differing level of expectation. We had a company go through Tacklebox that was selling pet food. Our founder put up a whole bunch of Facebook ads for the pet food and got customers from all over the country. Unfortunately this is useless. There's no way to build a product for all of these different types of customers early on, you just don't have the budget to do so. So some customers will be happy some customers will be sad.

Brian Scordato: [00:10:25] Third, customers must speak with each other. This is how you're going to grow. Your market needs to be cohesive and your customers need to be speaking ideally about the problem you're solving. Startups are this big game of telephone. Jess's game of telephone was fantastic. She was "a subscription salon for women's short hair". That's incredibly shareable and easy to pass on and so people did pass it on. Early on you're not going to have enough money for customer acquisition and any of the techniques that you're going to use wouldn't really work anyway. You're going to grow organically. This game of telephone is your only hope and if your customers speak with each other about the problem you're solving you're in great shape. How do you know if your market's small enough? Peter Theil a guy whose advice I'll take in this situation and very few others puts it perfectly. "You should be able to build a monopoly with your initial customer segment." That's the goal. If you can't it's too big. It's not your initial market.

Brian Scordato: [00:11:21] If you're selling B2B this doesn't change. Companies have the same criteria. SMBs aren't all just SMBs. There are subsegments and they act similarly to markets of people. What's most important though about your first customer

segment is just that it exists. You'll then run tests, which we'll talk about, which will help you understand the customer deeper. It'll sort of be this game of ping pong where you're constantly making assumptions about who you think your customer is, then you're running tests getting feedback from them and continuing to narrow down that market. The key phrase I think about here is "Edit to Amplify". Fewer customers, hire more targeted value is always the goal. My perspective is always that someone isn't the customer first before I assume they are. That's how people screw this up. They get opportunistic.

Brian Scordato: [00:12:06] So when Jess was running customer interviews to hone in on her initial customer, people popped out of the woodwork left and right guys would come in and say "Man I'd really love this service if it existed". We had aspiring actresses and models who said they need this preparing for auditions. But the second you expand past this initial market definition you're finished. There's no way that Jess could build a product initially that satisfies all of those different markets, since all the nuances are so different. The beautiful thing about a clear initial customer is it's easy to set up tests so that you can start understanding what your product needs to look like. This becomes way easier if you understand your market deeply like Jess did. Eventually you want your market to feel like a family. Your job is then to become famous to that family as Seth Godin says. That is to understand everything about them as fast as possible.

Brian Scordato: [00:12:59] So it's a tight customer really allow you to do? It allows you to build a pretty crappy product that'll help you get data. Founders underestimate how much action inspired people will take and overestimate how much action uninspired people will take. So once Jess got her customers excited, mostly through word of mouth sign ups to a website, or in-person pitches whenever she saw someone with short hair, she was able to run a test. She needed to get some semblance of the product out so that she could start iterating on it. Her basic first idea was to rent a Breather, which is basically a conference room in New York City, and lug a big barber's chair in there. She got a stylist friend to do all the haircuts. Her early customers signed up on a google doc for slots on a Saturday. They paid her over Venmo. It was hacky and didn't work exactly as planned. People were late, delays built up and Jess got stressed. Appointments were an hour late by the end of the day. She figured she was done for with every one of these customers. When she reached out to see if anyone was interested in the next cut, she sold out immediately. She was shocked.

Brian Scordato: [00:14:02] Early products are about creating emotion just brought together a tribe and solved a critical problem for them that everyone else had ignored. The specifics didn't matter. What mattered was that she saw them and saw their problem. The bonus was the connection. These people all had tons in common so waiting for a haircut together was actually a blast, it was a feature not a bug. At the next test, people showed up hours before their appointment and stayed late just to hang out with each other. Jess being able to brute force the solution was critical. She was there so she was able to identify that even within this tight customer segment they were micro customer segments that she could target first. She grabbed snippets of people's conversations for her marketing copy. The right customer segment allows your first product to be pretty crappy because you know that you'll be able to make up for it in other ways. You understand your customer so deeply so you can be there and add little custom features that won't scale, but we'll keep them interested in the short term.

Brian Scordato: [00:14:59] Your customers will stick with you as you build because they know that you understand where they want to be eventually. They'll let you build slow and figure it all out. This comes down to trust. Brand is created through repetition of something important and differentiated. Make a promise your customer cares about and keep that promise. Do it 50 times in a row and you've got a strong brand. If you increase the specificity in the connection you create, the number of times you have to do this decreases. Tight customer segment can be your cheat code to a brand early on. Narrow and deep always.

[00:15:31] The question I always get is if you start small how will you grow? The short answer is, you'll never get to the point where you can grow if you don't. But the better answer is, how nicely this approach actually works for future growth. If we take Jess's example she's now built a service for women the short hair in Brooklyn. They love her, they'll talk about her, they'll tell their friends. This will spread like wildfire amongst women with short hair as it's something they talk about constantly and the values clean and easy. It's a great game of telephone. What if she wants to grow past that market? Nailing the short hair market is the best first step because then she'll just add layers and peel back on the onion. Maybe there are customers who are adjacent to her customer. Ones with similar mindsets and interests but with longer hair. They'll have been sold to by their friends long before the product is available for them.

Brian Scordato: [00:16:23] It becomes natural you can move to the right of the adoption curve to customers that need a few more features or a lower price because their desire is slightly less than the early adopters. But by that time just will have figured out the logistics and can probably handle those customers. Her reputation will have preceded her as a very thoughtful company with a strong brand.

Brian Scordato: [00:16:50] We had a dog walking company that landed on a focus of walking only great danes. Their messaging was "we walk great danes". There are a bunch of quirks about Great Danes that make them in a good initial market. Soon people with other dogs with quirks are reaching out as well. Could this great dane company start walking vizslas? As soon as they were seen as a thoughtful brand that understood the difference between walking a great dane and say a labrador, people wanted that service for their dog too and it spread.

Brian Scordato: [00:17:17] The most important decision you'll make early is your customer. You've got to make sure the customer segment is tight enough to meet the three criteria we talked about. It's the only way you'll be able to run tests and get good data and continue to whittle down that customer segment until you've got a product that's ready to grow. We'll talk more in the next solo episode about how to further evaluate these markets. Also if you haven't listened to Joey and Katherine's interviews, I would definitely do so. They're incredibly helpful for early founders.

Brian Scordato: [00:17:48] And if you've got any questions about your market, if it sounds like something that this framework might not work for. I love hearing a challenge. Shoot me an email at brian@gettacklebox.com. Love hearing from you. A lot of dog talk in this episode. Maybe that means I should adopt one before the next episode. Guess you'll have to tune in to see if I do. A little cliffhanger for you. Have a great week everyone.