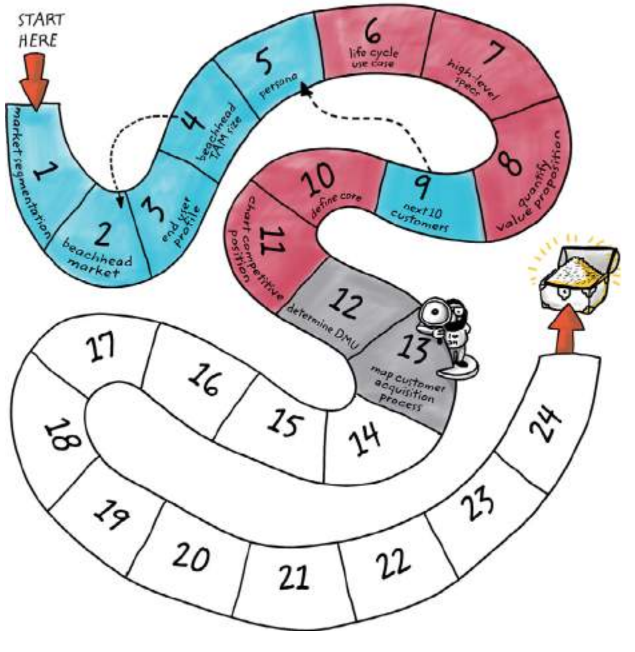
STEP 13

Map the Process to Acquire a Paying Customer



IN THIS STEP, YOU WILL:

- Map out the process by which a customer decides to purchase your product.
- Estimate the sales cycle for your product.
- Identify any budgetary, regulatory, or compliance hurdles that would slow down your ability to sell your product.

After knowing who will make the decision, it is critical to know how they will make the decision and what is involved in each step so that you can design your product to optimize for this process.

Determining the Decision-Making Unit of your customer is a big step toward figuring out how to get your product into your customer's hands and money into yours. However, the process by which you convert a potential customer into a paying customer, and from initial contact to final payment, is more complicated than asking your Advocate to pressure your Primary Economic Buyer.

By creating a map of the Process to Acquire a Paying Customer, you will:

- Understand the length of the sales cycle. The length of the sales cycle is a crucial determinant in how expensive it will be for you to acquire new customers. It is also critically important to project cash flow accurately. You will need to go from initial contact to paying customer quickly enough for you to create a sustainable business.
- Build the foundation for the Cost of Customer Acquisition calculation. You will need to reach a point where you make more money from current customers than you spend attracting new customers. It always costs more than you would think to acquire customers.
- Identify hidden obstacles that will inhibit your ability to sell your product and get paid. If something about your business will be a deal breaker, you want to know now, rather than once you have fully committed to the business, raised money, and hired employees.
- Be able to show your potential lenders and/or investors that you understand the customer's buying process, which for many is a prerequisite to investing in your business.

HOW TO MAP THE PROCESS

The following items from the Full Life Cycle Use Case (Step 6) will be the basis for mapping the process to acquire a paying customer. You do not need to do additional work on these items in order to use them in this step.

- How customers will determine they have a need and/or opportunity to move away from their status quo and how to activate customers to feel they have to do something different (purchasing your product).
- How customers will find out about your product.
- How customers will analyze your product.
- How customers will acquire your product.
- How customers will install your product.
- How customers will pay for your product.

By mapping the process to acquire a paying customer you will capture more detail about each of these items especially now considering the DMU, as well as map out the internal purchasing mechanisms of your target customer. A seasoned entrepreneur with extensive industry experience may be able to build a map of the process relatively quickly; but the first-time entrepreneur will find the task tougher, with lots of educational moments on how the real world works. It is always good to find someone with deep experience from your target customer group as an advisor to learn about very specific and critical information such as this.

Some elements in your map will vary depending on the industry, but the basic components of the process will include lead generation, access to influencers, pre-purchase planning, purchasing, and installation. Many of these elements will also have multiple subcomponents. For instance, talking with the end user may be one component; talking with the end user's supervisor may be another component.

Be sure to factor in any regulations from governmental or quasi-governmental organizations that would potentially impact your ability to sell your product. You should have uncovered in the DMU (Step 12) whether any governmental officials hold Veto Power over a project—such as when a regulator must approve an element or milestone in the process. By mapping this process, you will also outline what regulations you and your customer are required to fulfill in order for the product to be sold. One example of regulations proving too onerous for a business idea is presented later in this step. Similarly, there could be internal standards for your target customer's company that must be complied with, rather than regulations; but the process is still the same.

For each component in the process, include:

- Who are the key players from the DMU that will be involved?
- What is their influence on the process? Again, this is hopefully information you have already obtained in Step 12 when you built the DMU; but now we are putting it in temporal order and developing educated estimates on how long each component will take.
- What is their budget authority (amount and type)?
- How long will it take to complete each component you identify? List them in temporal sequence noting any that can run in parallel. (Be diligent. You need to have at least 80 percent certainty in each step. Make conservative estimates because entrepreneurs almost always underestimate the time to complete each step.)
- What are the inputs and outputs of this step?

Through this process, you will better understand the customer's business as it relates to your product. Mapping out this process is important because you will need to navigate the same process over and over to sell to more customers; so understanding this process will pay dividends later, when you can more easily acquire new customers.

BUDGETING/PURCHASING AUTHORITY

A key factor in each component of this Step is to identify the budgeting/purchasing authority of each individual involved in that component of the process as appropriate. One common limit you will find is that an individual can only purchase items up to a certain dollar amount, such as $5,000, without approval from a more senior person. Sometimes, this approval comes directly from one decision maker, while other times, it kicks off a long and involved process with the purchasing department and its regulations. Identifying these limits may help with your Pricing Framework later on, because a price lower than an individual's limit means you can eliminate certain players from the DMU who would otherwise be involved in the process. This could dramatically reduce your sales cycle, which could be the difference between success and failure for your new venture.

Another important consideration is whether payment will come from the yearly operating budget or the longer-term capital budget. Identify which budget your customer would use to pay for your item, and what that budgeting process is. In some companies, it may be much easier and faster to get approval to include an expense in the operating budget than in the capital budget; but with other industries and companies it may be exactly the opposite. While seemingly a small item, this could mean the difference between a three-month sales cycle and a one-year sales cycle, which could mean the success or failure of your new venture, especially if you are not aware of it a priori.

TIME IS OF THE ESSENCE

Make sure you take into consideration the time it takes to move through each step in the process. Once you have made all your time estimates, go back and validate whether the estimates are reasonable. Are you accounting for delays? Are you being aggressive or conservative in your estimates?

CONSUMER VERSUS B2B

The process map for a consumer will likely be simpler than the map for a B2B environment, but there is still plenty to learn from it. Think of the gains as online retailers who are determined to finds ways to streamline the purchasing process, such as in Amazon's famous "one-click" system. Entrepreneurs were able to look at a failure in the process—where buyers would abandon their electronic shopping cart prior to checkout—and determine from the customer's viewpoint what needed to be improved to help the checkout process along.

EXAMPLES

Mechanical Water Filtration Systems

The team working on this product was looking to sell to facilities managers new water purification systems that would help their data centers to be more energy efficient. They were initially planning to sell their system to new data center constructions because that would not involve having to replace an existing system or sell against a solution that already worked for the data center. Besides, they were getting more inquiries from new data center constructions as opposed to retrofit situations, so it seemed to make logical sense to pursue the new constructions market.

After extensive interviews, they mapped the Process to Acquire a Paying Customer at new data centers as well as retrofitting existing centers. In the process, they uncovered something interesting that changed their focus from new centers to retrofit opportunities, which caused them to revisit their Persona (Figure 13.1). As I described in Step 5, the team selected Chuck Karroll as their Persona.

The team had secured its first pilot program in a new data center in less than nine months, so they could have assumed that this was the sales cycle. But upon performing an analysis of developing the map of the Process to Acquire a Paying Customer more generally, they realized that the way they had secured the pilot was not repeatable for other customers. When they looked at the length of the acquisition process for new data centers after the pilot, they discovered that the sales cycle would take an average of 2.5 years, which was way too long for a startup to survive week-to-week, with the ups and downs of cash, employee morale, and product stability. While the revenue from the pilot could help pay bills and minimize cash burn, the team looked toward retrofits as a better way to enter the market due to its shorter sales cycle. Such a long sales cycle could be managed to some degree by excellent (and likely experienced) entrepreneurs, but is usually the kiss of death for the first product of a brand-new business and new entrepreneur.

The middle range for installing the product in retrofit projects, by contrast, was just over a year, which was much more manageable than a 2.5-year time frame. (Even a year-long sales cycle is challenging for a startup, so even shorter would be ideal.)

However, the team had not seen many inbound queries about retrofits, so they revisited their Persona and did brand-new primary market research on the retrofit market. They found that existing data centers received the idea well, but they were much less likely to be shopping for a solution because they already had one that worked.

The team decided to focus on retrofits to get going, but once cash-flow positive, they would begin selling to new data centers as well. This was an extremely important insight that came out of the analysis.

Description of the Acquisition Process

NEW PROJECT

- Contact CIO to get approval and gain access to internal company specialist
- Contact internal company specialist/green czar/Corporate Facilities Manager to influence Engineer
- Contact design engineer to work together in definition of water system, give specifications, and have them prescribe MWFS
- Contact general contractor and Purchasing to ensure purchase and proper installation

RETROFIT

- Contact Facilities Manager and help him sell to Data Center Manager
- If necessary, contact CIO to get approval and gain access to Data Center Manager and internal company specialists
- Contact Facilities Manager/Data Center Manager/Purchasing to ensure purchase of our product and proper installation

NEW PROJECT

Lead Generation	Access to Influencers	Access to Design Engineers	Design Phase	Construction Phase: Actual Sale to Contractor	Installation
1–2 months	2–4 months	2–4 months	6–12 months	12–15 months	1 month

RETROFIT PROJECT

Lead Generation	Access to Facility Manager	Access to Influencers	Negotiation with Purchases and Budget Owners	Installation
1–2 months	4–6 months	2–4 months	2–3 months	1 month

Figure 13.1 Chuck Karroll's acquisition process.

When Regulations Make a Market Difficult to Enter: "PayPal for Kids"

One of my star MBA students, Frederic "Freddy" Kerrest, who also had a computer science degree from Stanford, entered MIT with the determination to found a major new venture upon graduation. He aggressively pursued opportunities to build his knowledge and experience in how to create new ventures. He even ran the legendary MIT $100K Entrepreneurship Competition.

He methodically evaluated ideas to start his company in his second year and settled on an idea that I will simply call "PayPal for Kids." The market opportunity centered around online commerce opportunities for children, an area that was constrained by the need for a parent to approve every transaction, no matter how small, because the parent's credit card was needed to make transactions.

Freddy's premise was that he could create a service expressly for kids where parents would place a set amount of money—say $50—in an account that kids could use to purchase items online, anywhere that credit cards are accepted, without parents needing to preapprove every purchase.

Parents could prevent money from being spent on sites and purchasing categories they did not approve of, and they would be able to see after the fact what their child had spent money on. Part of the value proposition to the Primary Economic Buyer (the parents) in this case was the ability to teach their children about personal budgeting and financial discipline.

From the excellent primary market research that had been done, it would appear that this was a great business opportunity. Then it came time to outline the Process to Acquire a Paying Customer. It was at that point that things began to change.

Freddy aimed his venture to serve parents and children throughout the United States. But he discovered that to collect money and distribute it as his model dictated, with his company getting a percentage of each transaction as revenue for his business, he needed to be registered as a bank or financial institution in any U.S. state he wanted to do business in. For his venture to be successful, he would therefore have to register as a financial institution in dozens of different states. The cost, time, and bureaucratic mentality needed to properly do this killed the idea, as Freddy did not want to start a business that needed to deal heavily with government regulations.

Freddy quickly used his newfound knowledge to continue to pursue ideas and partners with more wisdom. Based on his prior experience in enterprise software (deep market knowledge is always a great place to start as an entrepreneur), Freddy founded a company called Okta, which helps enterprises manage and secure web-based applications; the company is doing very well.

Here, the key hang-up in the Process to Acquire a Paying Customer was not the length of the sales cycle but rather the complexity of it and certain requirements that had been overlooked previously.

SUMMARY

Determining the Process to Acquire a Paying Customer defines how the DMU decides to buy the product, and identifies other obstacles that may hinder your ability to sell your product. From elongated sales cycles to unforeseen regulations and hidden obstacles, selling a product can sometimes be far more difficult than simply meeting the Persona's needs. This step makes sure you have identified all the potential pitfalls in the sales process.