RAPID PMF:

Find PMF in months

PER HEISTAD

RALLYCRY
VENTURES

THE CREATION OF PMF

Using the following Rapid PMF Framework startup teams can cut the time to PMF in half – and sometimes by two thirds. The core of this success lies in using the original definition of PMF with a rapid cycle time.

> ***"The product and market must fit the business model."***
>
> – **Andy Rachleff**, legendary investor and founder of Benchmark Capital.

Fifteen years ago, Rachleff created the term Product Market Fit (PMF) when he presented the idea that ***a company's business model provides the limitation that a product and market must work within.***

This concept dictates that each business model places unique constraints on what can be built and sold successfully. PMF can be defined as an internal harmony that can only be struck when the product and market work in concert with the business model, creating a symbiotic relationship instead of a forced march to market.

PMF EXAMPLE

EXAMPLE:

BUSINESS MODEL	DISTRIBUTION CHANNEL	SALES CHANNEL	ACV
SaaS	Direct	B2B	$2K

This business model requires a product that can be sold via an internal sales team. So, the target market must be accessible through both remote marketing and inside sales channels, e.g. email, phone calls, virtual meetings, etc. Why? Because a ACV of $2K will not support field AEs or highly experienced internal salespeople. Therefore, building a complex product that will take an experienced salesperson 4 months to sell won't result in PMF or revenue.

Unfortunately, I've noticed a serious lack of insight when it comes to the current definition of PMF within the business community. For many, PMF inspires a **limited, tactical focus** on how the product or service will best fit into the current market opportunity. Far too few founders and CEOs take the time to consider the **strategic relationship** between the product/market and the actual business model from a leadership perspective. In short, a tactical view is not comprehensive enough to reach true PMF. And this is where the mistake occurs.

USE ESTABLISHED MODEL

Your success in product and market is judged by the business model you use, if you don't define the model the other person will pick one to use.

Most founders focus tactically on tech dev and getting a customer that will pay. Even if they are "successful," this is not the point of PMF. Product Market Fit creates a V1 of product and market that can be successfully sold, your CAC is reasonable, you can hire the required team, the product can scale without being rebuilt, your first customers lead you to mainstream customers. This level of success requires using a business model in addition to product/market.

I cringe when founders tell me their business model is unique. Salesforce took a decade to make SaaS a valid business model, startups want to use a known business model. Within that overall model you want to figure out what details work for your team, product and market. Your Unit Economics is one element you must master. New businesses are difficult enough without creating a new business model, try to limit your creativity to the problem and solution.

WORKING IN SEARCH OF A BUSINESS MODEL

Clay Christensen [recently deceased] pointed out that startups work in search of a workable business model. Meaning, using a standard model, you need to figure out how to get the particulars to work for you. Your employee team is a business model factor, not being about to hire the team often kills off a great idea.

Many who have worked with startups have watched these teams with great ideas, work as if they can build a product and find some revenue while ignoring the business model. Often the founder will say they are going to figure out the business model later, as if they can be 'successful' absent a business model.

BUSINESS MODEL DEFINED

Startup success is measured by comparing the team's results to the standards of the business model! Your success in product and market is judged by the business model you use, if you don't define the model, an experienced person will pick one to use.

When we talk about business models, we're discussing models like:

- SaaS
- Distribution
- Retail
- Agency
- Manufacturing

Subcomponents of a business model include distribution channels, sales channels: B2B, B2C, B2B2B, and revenue methods: freemium, outbound demand gen., sales team.

STANDARD STARTUP PROCESS: SEQUENTIAL DEV

We begin by looking at sequential development, which has been the default standard among startups historically.

To build their product, market, and business model most startups use a sequential dev process. Years 1-3 are focused on product, then years 2-4 on market. Only after this time period do they deliberately put effort into developing the working business model.

When we consider PMF as a strategic framework, we realize that this delays the achievement of actual PMF until the end of the business development process. This is a key reason why PMF typically takes 3-5 years to define and prove.

3-5 YEARS

IS THE TRUE TYPICAL PMF TIMEFRAME

RAPID PMF PROCESS: CONCURRENT DEV

It's safe to say that sequential dev leaves much to be desired and can delay the impending information that a startup may simply be unable to sustain their forward progress. This sets the company up for failure long after additional time and money have been invested in its longevity.

However, concurrent dev allows for all components of the business to develop and grow together – creating a PMF framework designed around both the requirements of the business model and the needs of the consumers.

These 3 elements can be designed, tested, and proofed concurrently. A simple version of the business model and market can be defined in concert with the core product idea being prototyped.

RAPID PMF SECRET SAUCE

When a team is working towards PMF, be it a new market or product launch, we define what I call a BPM: business model, product, market. We take each possible combination of model, product, and market and examine it as a standalone concept. This gives some form and clarity to the endless possibilities of what path to take.

BEST COMBINATION

Candidly, I can't stand the endless brainstorming of potential possibilities with no actual focus on one idea long enough to make progress. Most founders drown in this ocean of possibilities, every conversation bringing new lists of ideas, uses, customers, etc. This stops them from focusing long enough to pass/fail any one idea. And as all of us can agree, endlessly changing direction or focus isn't exactly conducive to success.

Defining a business model at the same time as the first product and market segments allow most of the possible combinations to be discarded, while only the best few are acted on. As the possible combinations are acted on, the best BPM will be obvious. **This enables leadership to purposely invest in the most promising combination.**

The key insight I want to share is tactical focused PMF work doesn't result in sustainable/scalable success. Strategic PMF work using a model, product and market is the framework that results in the best startup outcome.

TESTING CYCLE TIME

To find PMF, we test each element independently. As each one gains evidence/data – i.e. market feedback – we use that to make "informed judgments" to change one of the elements accordingly. The key here is to rapidly update the BPM based on valid feedback. In a SaaS startup, we update the BPM every 6-8 weeks after evaluating the evidence. [Most SaaS founders update every 6-8 months.] Even in life sciences, when a rapid feedback loop is focused on, the time to update is often less than the accepted norm.

After 4-6 cycles of testing and updating the BPM, we'll have a version of model, product, and market that has a reasonable chance of PMF success. **Using a SaaS example, typically this takes around 6 -12 months.**

EATING MY OWN DOG FOOD

I was able to implement this idea on a startup I helped launch recently. After 30 hours defining a BPM, I called three experts on the space for their input. All three said that the idea was 25% better than the current options. Instead of taking a year to fail the idea using the sequential method, I did it in 40 days using BPM. When your idea is **wrong**, the faster you know this the better.

After all, the point of early product dev and sales efforts is to lead the company forward towards success. Startup success means you can hire the people, snag some revenue, your GTM works, you can repeat your success, and gain market share. BPM helps you to think about this success from month one.

If you invest 5% of your time into the business model, you will succeed or fail faster – both good outcomes!

THE VASTNESS OF THE OPPORTUNITY

A key cause of failure in startups is the vastness of the opportunity. Every day, someone has a new thought on a possible use case, buyer, feature, or distribution channel. This vastness (possibility thinking) dilutes the energy and focus. Losing momentum is often enough to kill off a startup. **Personally, I think this is the top cause of startup failure – vastness of possibilities leading to loss of forward momentum.**

I built the BPM to reduce the complexity and endless list of new ideas that occur when working with founders and new beta products/markets. It gives us the power to understand how the necessary components of PMF can be developed simultaneously – bypassing the faulty 3-5-year timeframe full of unnecessary and unpleasant “lessons.”

A startup needs to be a juggernaut, a representation of productive perpetual motion, in order to succeed in a competitive market (even new ‘markets’ are competitive: Google, LI, FB all had 10 startups funded before them). In this sense, a startup needs to master its opportunity, and this takes a dedicated pinpoint of focus.

EARLY OR WRONG?

> *In a startup, it's hard to tell the difference between early and wrong.*
>
> – ***Thos Niles***, Co-founder Brio Systems

Most startups take years to know if they are early or wrong. In my experience, using BPMs results in finding the answer in record time. Recently, a 3-year-old startup applied the BPM method to better understand and define their next step. Prior to this, the startup had participated in four accelerator programs and invested countless hours and resources – only to find out that their BPM was flawed, and the startup wasn't sustainable.

If your idea is wrong or you have serious flaws in your BPM, don't you want to know that today?

While investors respect hard work, devotion, dedication, and perseverance, we don't exalt founders who refuse to quit an idea that's "a step past wrong."

2 KEY POINTS OF LEVERAGE

BPM has 2 key advantages as a startup framework:

- Business model defines the required limitations for PMF
- Concurrent development of all 3 elements

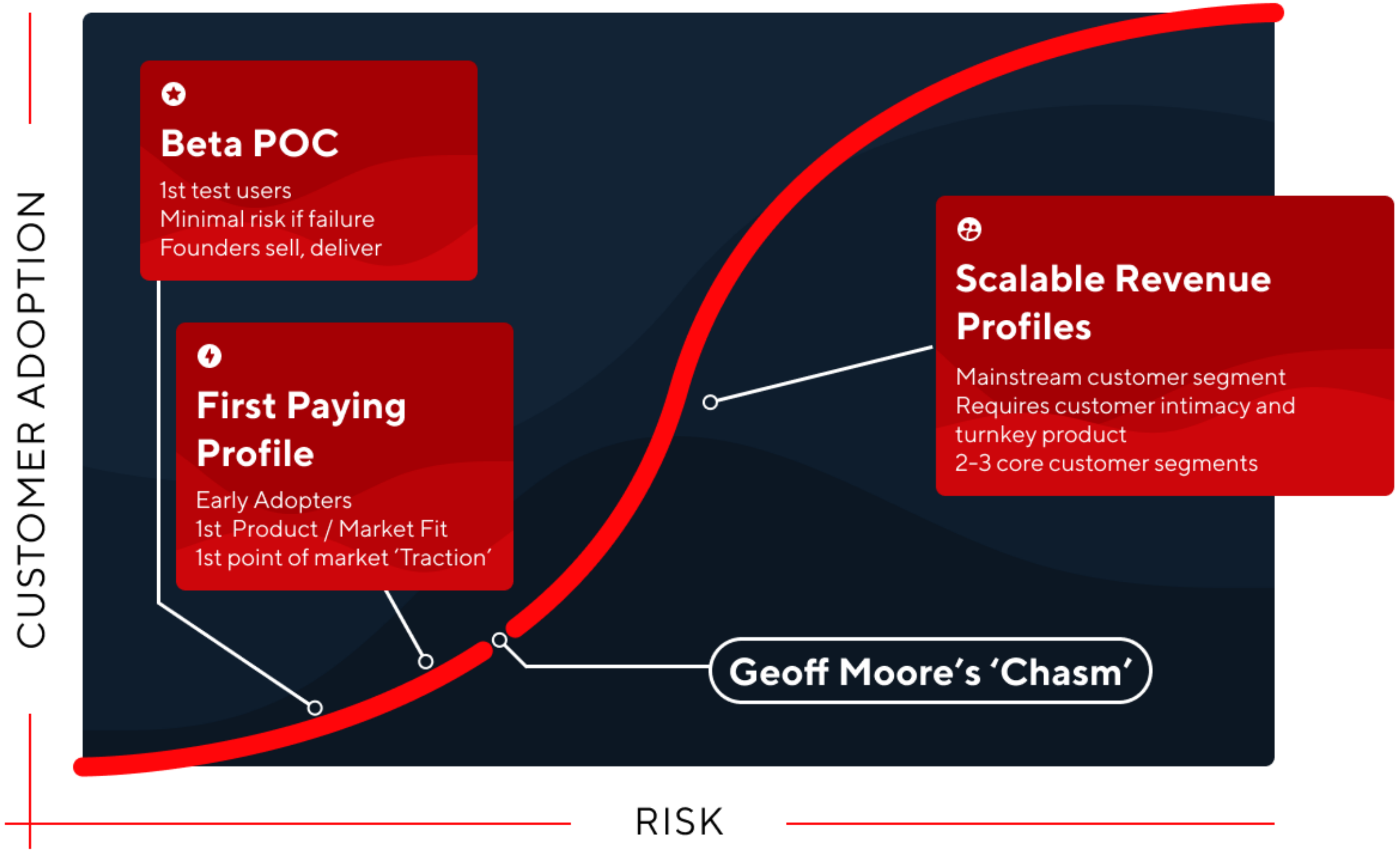
While I admit neither of these is genius in of themselves, I will argue it is clarity on the other side of complexity. When both advantages are used with one another, the combination has the power to take the guesswork out of PMF – saving startups from expending resources they don't have to achieve something that will never work.

CROSS THE CHASM

ADOPTION CURVE

Geoff Moore wrote "Crossing the Chasm" discussing the barrier to achieve revenue success. He uses the product adoption curve to illustrate how the first PMF success is not scalable. The first revenue success is with early adopters, which by definition are not mainstream customers.

The Chasm he writes about is the gap between the first paying customers - early adopters – and the eventual mainstream customers.

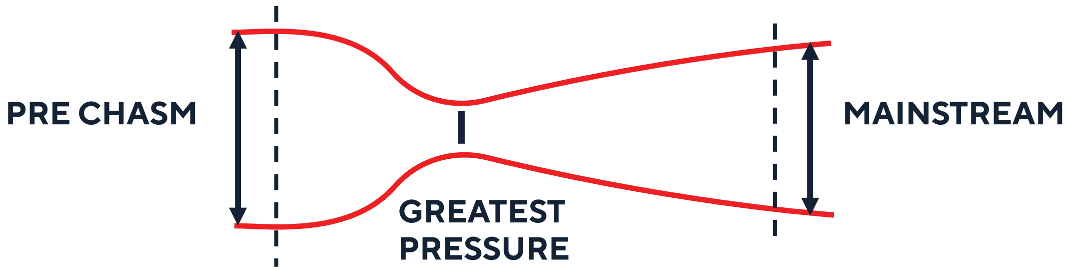


RALLYCRY VENTURES

NARROW FOCUS TO CROSS THE CHASM

For numerous reasons, crossing the chasm takes every team member focused on the smallest possible target. In my experience (60 startups), most successful startups became successful because the entire team remained focused on the smallest possible point required to build the momentum necessary to crossover into mainstream success. FB and LinkedIn are classic examples.

To achieve PMF, the opportunity has to be small and manageable enough to be mastered by the team. The smaller the opportunity, the easier it is to pass/fail it. Once over the Chasm, the customer/GTM focus can be expanded to scale revenue. (For the aeronautical fans, this constriction and expansion looks like a de Laval nozzle.)



Once over the chasm, Moore's book "Inside the Tornado" explains how to expand the customer segments to scale revenue.

PRODUCT ADOPTION CURVE POSITION

PMF is specific to the adoption curve. Early adopters will not be the same PMF as the one necessary to reach a mainstream audience. Consider it a PMF evolution. As early adopters test products, they spend significant amounts of time identifying and fixing problems. From here, they then take the time to explain to you how and why they did this. Customer feedback can change your PMF drastically. This is why a product and market must be developed enough to test before it can evolve into something mainstream accessible.

Early customers are, by definition, not a segment that can scale. Therefore, this PMF is a false positive and won't equate to the mainstream PMF that will have the potential to scale revenue. Because of this, most A series investors tell me they don't expect the current PMF to remain static as the company prepares for and goes through periods of growth.

The entire adoption curve process can be accelerated using BPM. The viable possibilities are put on the table earlier, and the endless cycle of brainstorming can be confined to a more productive stream of ideas, tests and decisions.

MVP DEV/LEAN STARTUP

Most startups focus the majority of their efforts on building their tech until the MVP can be POC tested. When the business model and market are tested at the same time as the tech dev, the feedback improves the MVP. The point of building an MVP is not to create the V1 of a tech solution you can sell – the point is to build a product that scales without needing to be rebuilt!

BPM gives greater clarity on what the MVP needs to include, how it's used, and for what reasons.

A MVP is not PMF. Many founders today operate mistakenly on the belief that their MVP is also their PMF. MVP is V1 of a product. By itself, an MVP is of little value. However, an MVP that fits a customer segment and a business model is valuable to investors. In 2018, 51% of Seed VC required revenue – a version of PMF. This is more than an MVP that "works."

CUSTOMER DEVELOPMENT

Steve Blank canonized the successful startup process when he developed the framework of "customer development." In this framework, the startup goes into the market before product dev to find the pre-existing demand for a solution. Once this demand is found, the product is then built to fit the demand.

Steve's class on Customer Development inspired Eric Ries to write "Lean Startup." My experience with Lean Startup is that to most founders MVP means a prototype they can demo on their phone. This is not what Steve meant! What is built for a PRODUCT should be based on powerful insights into the market's current existing demand for a solution to a pressure.

The east coast version of Customer Development is Disciplined Entrepreneurship by Bill Aulet at MIT. When I see either market methodology used, the work typically looks like this: Team goes into market, finds a problem with urgency, then puts their head down and develops the tech. No! This is sequential development, in this case market, product, market, business model. When urgency is found, you should build BPMs and test combinations until you have a solid one to work on.

THE MARKET DOESN'T LIKE MOST GOOD IDEAS

In practice most founders use Lean Startup to focus on building their MVP, largely ignoring the customer/market. In my opinion this is because most founders aren't energized by the market telling them that their idea stinks! Unfortunately, the need to only hear positive feedback ignores many of the necessary negative points that can define and remedy weaknesses early on. And this leads to delays in gaining market feedback.

The sooner the market can comment on your possible product/solution, typically the better.

**This is not the same as asking the market what it wants for a solution. I hear Steve Jobs misquoted on this regularly. He was brilliant at understanding what market demand existed to solve a problem. He then decided what the solution would be to the problem.*

Customer Development is used to find existing <u>demand</u> to solve a problem, not for the market to <u>define</u> the solution. The 'magic' skill of founders is they can figure out the right solution.

SEED INVESTORS PMF

For an ongoing startup, most Seed VC investors require a first version of early adopter PMF to invest. PMF is not well defined by the VC industry, which means referring back to a set of more basic, generalized requirements. Generally, a base version is:

- $50-200K revenue
- Product as is
- Early adopter customers fit into a definable customer segment
- Company can sell product as is to 5-10x the number of the same customers
- Business model basics worked out, e.g. unit economics, GTM, costs, team, etc.

For an idea stage startup, most investors want to see a solid idea of what PMF ***can*** be.

FIRST MOVER ADVANTAGE

The first point that needs to be made here is that the thesis of "First Mover" has been discredited by the two professors who wrote the original article on "First Mover Advantage."

What has proven to be the supreme market advantage is being the first to establish PMF with mainstream customers. Once this has been achieved, a startup can scale that success.

The first to dominate by scaling revenue is what Moore calls a "market gorilla". The second ranked company earns the title of "chimp," and all the rest are considered "monkeys." Be the first to establish mainstream customer growth. Gorilla is first to find PMF that will scale. In SaaS, a gorilla will pay off the entire VC investment into the category, this is true with eBay, Google and probably Zoom. Often no other company pays back their investors.

OODA LOOP

John Boyd overturned 4 thousand years of military strategy with his OODA Loop, using it to illustrate how people make decisions. Boyd challenged the original way of thinking that presented speed as the primary key to success. Instead, he pointed out that the most effective strategy for victory was the ability to make hard decisions in a shorter length of time. It's the actual pace of decision making that makes the tactical difference. Boyd referred to this as "getting inside someone's OODA loop."

To better understand, imagine playing a game of paintball where you can only move your players every ten minutes. Now, imagine that you're playing against me, and I can move mine only every 20 minutes. The pace at which you make decisions will enable you to overcome almost every disadvantage to best me.

I am convinced that in the race to PMF that scales, the fastest pace of decision making typically wins. Pace requires a completed decision cycle, e.g. 6-8-week BPM updates. This contradicts the idea held by many founders that believe market success is from the speed of their MVP dev work. However, this simply isn't proven by successful companies.

RAPID PMF RECAP

- Use BPM's to test combinations
- Concurrently test business model, product, market
- Rapid testing cycle time [6-8 weeks]
- Narrow focus to as small as feasible
- Fail your failed ideas rapidly
- Adoption curve position determines work
- Beware the false positive PMF of early adopters
- Use pace of decision making to your advantage
- Use Customer Development / Disciplined Entrepreneurship to find latent demand

PLEASE READ THESE EXPERTS

- Steve Blank
- Geoff Moore
- Clay Christensen
- Bill Aulet
- Andy Rachleff [online articles]
- Ash Maury [LeanStack.com]