Andrew: This session is how to use Lean B2B ideas to build products and businesses that other businesses actually want to buy from. It's led by, Etienne Garbugli. A two time startup founder of Flag Back and Higher Voice, and a recognized user ability and UX researcher expert.

This session is based on his book. Let me bring it up on the screen right there, "Lean B2B: Build Products That Businesses Want." We're going to use some ideas from this book and teach it to you right here today if you want to follow up, of course. Go get the book at any bookstore, or on leanb2bbook.com. Etienne, welcome.

Etienne: Welcome. Thank you. Thank you for having me.

Andrew: Let's start off with a painful story that shows the audience what would happen, and frankly, what often happens with entrepreneurs who don't follow the Lean B2B methodology. This is actually is especially painful because you experienced it.

Etienne: I did.

Andrew: What is this company and how did you experience it there?

Etienne: Basically, we ended up in 2011 I started a company with a few partners. It's about the same time that the Lean start-up book out. We decided we were going to use some of these techniques. We started pitching from the first few days. We started validating ideas with true cold calls to a landing page and surveys.

We really focused on getting it right. Doing good validation. Our starting assumption was that we were going to solve the issue of [??]. Basically, the way job candidates perceive companies. We thought that was a big problem. We thought that was a good valid first assumption. We ended up holding . . .

Andrew: Yeah. The way candidates perceive companies is, frankly, one of the reasons why so many successful entrepreneurs do interviews on Mixergy with me because they want potential employees to hear about the company and to get to know the founder directly. I can see the importance of that. All right. You did your surveys. What's the problem?

Etienne: We figured out that we actually built the first product because everybody was saying oh, this is interesting. This is super interesting. We had a nice UI. It was looking good, but it was just interesting. That's all that came out. It was just interesting. Nobody was throwing money at it. The people in HR, they did not budget for this. They were not able to use it, actually. Actually, get some engagement with the product.

Andrew: That's a good point. One of the reasons I wanted to start off with that is a lot of people already think that they know the B2B, the lean startup methodology, but just knowing a little part of it, it can also get you hurt and get you killed. How's the company doing today?

Etienne: That company actually failed. We sped up. We ended up invalidating six different products over a course of eight months. I personally lost money. I spent a lot of time, a lot of sleep [??] just trying to figure out what would make it work. My partner ended up quitting the company. We finished not profitable at all.

Andrew: This is one of things we want to avoid for the audience. It's not enough to just say, hey, I've surveyed potential customers. I've done a little bit of research. There's more to it than that. We're going to get into it today.

Etienne: Yes.

Andrew: If it's done right it could be like the story of this plain jane website that's actually doing incredibly well. What happened with these guys before they launch a site they created this. How did they do things wrong with carrot sticks and correct it with optimizely. Then we're going to get into the big points here of how the audience can do it, but how did they do it wrong and right?

Etienne: [??] Cumin is one of the people I interviewed for the book. He started Carrot Sticks with a partner of his. I think they met at Google. They started working on a problem that was not their problem. Not something that actually knew personally. They were working on education for math. They were interviewing. They were speaking with a lot of parents.

They were trying to figure out if that was a big problem. If there were ways for them to get more involved in math education. They did that for a while. They actually hired someone to help them with their product, but it was just not working. They were not able to get significant revenue, or significant validation for the product.

Andrew: Here's the point that you told me before we got started was important. When it came time to do [??] AB testing. When they went to talk to customers they didn't just survey them. They didn't just talk to them. They did one thing that made all the difference. What's that one thing?

Etienne: They just went pitching. They decided okay . . .

Andrew: Pitching as in sales pitching.

Etienne: Yeah, yeah. They just decided we're gonna ask people in agencies if they're willing to spend 1,000 dollars on that idea, a project that they didn't have, and they just went [??] contacts that they had. They were able to sell 2 different licenses before the product was even built. It's good. It validated the fact that there was a business, a significant business [??].

Andrew: I see. So not enough to just do surveys and understand your audience, but in this case actually getting them to pay is the proof that what they're telling you is real, and that it will lead to something that will help your business grow. That's one of the ideas that we're going to talk about here today. We pulled out here as a team at Mixergy, a few ideas that we thought were very important for anyone in the audience who's building a business that creates products for other businesses to follow.

The first one is to use your network and experience to find market opportunities. I used to think of this as being an unfair advantage, but it is not. It is one of the key things that helps entrepreneurs whose self or businesses do well. Here's Dharmesh Shah, a guy who was one of my earlier interviewees on Mixer G. How did he do this?

Etienne: So basically before he started Hubspot and his famous blog OnStartup, Dharmesh was working for a company called Sungard. While he was working at Sungard he had a great idea: to be able to [??] the company could build. So the idea was to build an application that could allow Sungard to transfer clients from one institution to another. He went to see his manager. He told him about the idea, and the manager initially, after thinking the idea was actually pretty interesting, [??]. So Dharmesh had no experience selling products so he just said $5000. Sungard is actually in the business of multi-million dollar deals with large companies, so it was really not in their range of products.

Andrew: So by talking to them, he got a little bit of information from them. It wasn't in the range, so what did he do?

Etienne: He was passionate about the idea, so he decided to leave the company, build a company his brother, and they actually use the knowledge that they able to get at Sungard to build a company

Andrew: And not just the knowledge, but they ended up partnering with them. Sungard ended up distributing the product in return for half of the revenue.

Etienne: Yes. For the first three years of the business, Sungard was actually their almost-exclusive sales channel. That kind of deal would not have happened had Dharmesh not been an insider, not known about that company. It's a problem he was able to see because he was inside the company. He knew the company contacts.

Andrew: I see this all the time: that people will leave a company and then go back and sell to that company. Their first B-to-B, business-to-business client is the company they used to work for. In his case, Dharmesh ended up, according to your book, earning over $15 million per year in sales, and then I found this press release online from back in the day - this is 2005 - he ended up selling the company to Sungard, right?

Etienne: Yes, exactly. A few years after, he was able to actually the company to his initial employer when they actually saw that the [??] was really valuable. So initially they had doubts, but he ended up convincing them [??] selling products and bringing them customers.

Andrew: All right, so first customer, first bit of feedback, first partnership, ends up being a company that you previously worked for. Let's use that on fair advantage instead of saying "Well I can't go back to them. I can't talk to them about this business because, well, no excuses."

Etienne: People tend to neglect their own experience, and we usually have insides on problems that other people don't see. I think by working for a corporation, we were able to see things that other people don't have the visibility on.

Andrew: Let's take a look at the big board here. The next big idea we want to talk about is to choose a market with a significant problem to be solved. You want to make sure that people are going to be willing to pay for it, want to make sure that they care enough about it to not just do the surveys, but to ask for your product to actually be built and to pay for it. You give an example of this company.

Let me bring it up on the screen. I told you I actually admitted to you, I didn't know them before you. What is this company? How do they do it?

Etienne: Basically, Taleo was the first ATS, or Applicant Tracking System. They initially built one of their first job boards in 1998. The company was losing a lot of money. It was trying to scale [???]. The founder was $280,000 in debt when he finally got some funding. In 2011, when we were still doing [???], the company was sold to Oracle for $1,900,000.

Andrew: To Oracle for $1.9 billion dollars.

Andrew: Yeah.

Etienne: So it's the technology that powers most of the job boards for large corporations.

Andrew: And so what is the significant problem that they saw?

Etienne: I'll tell you what. (?) the company's founder was actually working for a company called (?) and at that time basically the way you would receive for applicants for jobs was through newspapers. You can put an ad. You would get a bunch of (?) by mail. You would look at them, read all of the different (?). Bring them home and try to actually identify which people are interesting and call for interviews.

Andrew: I can't imagine days when resumes would come flying to you through the mail and you'd have to go through every one's paperwork to see what the right candidate is. There are no screening processes that are automated because it's all done by paper. All right. So this is the world that he saw. It's a significant problem because companies are getting, I'm sure, flooded with resumes in many cases. And it's hard to figure them out and it takes a while to get those resumes. So that's what it made it a significant problem.

The solution he came up with was what?

Etienne: So basically once he realized that that was an issue he went to see the HR people from X-bo, validated that there was a significant need, that it was something interesting they would like. And he decided to use web forms to be able to categorize and qualify candidates for jobs.

Andrew: Right. So now people could, as a result, go to a form online, fill out the form with their name and all the details, et cetera and then send in the application. So the question I have as a follow-up to this is how do you know if it's a significant problem? Is it enough to just go a company the way he did with X-bo and say, "Is this a significant problem or is it more nuanced?" You want to know if it's a more significant problem.

Etienne: In this case it's very difficult to see. The only validation I had was inside X-bo which was the company we were working with people we actually knew. So it was either to take that as real validation of the problem. So in the book I covered it in ways the importance of the problems. So there's the pain that's caused by the problem. There is the availability of the budget. There is the market indications. There was a lot of market education required.

Andrew: Market what? I'm sorry.

Etienne: Market education so the amount of education is required for people to understand the value of what is being sold.

Andrew: Okay. Let me bring my camera up so I can dig into these a little bit. You're saying you want to make sure that there's a budget associated with this.

Etienne: Yes.

Andrew: So it's not enough to see that this is a problem for someone, but you want to see that there's actual money dedicated to dealing with this problem.

Etienne: It's not as absolutely essential, but the fact that money is associated with the problem it tells you about the priority of the company. So they're already aware that money has to be spent on solving that issue.

Andrew: I see. So for me going and getting coffee down the hall is a problem every day, and frankly I wish every day I could have coffee right here, but it's not a problem that cost me any money.

It's not a problem that significantly takes away from my income statement month to month. I'm not willing to pay for it. I'm not willing to spend any attention on it. Got it. But researching, I guess, does cost me money. Researching guests and figuring out who the right one is does. So if you can find a process that simplifies it, I'm all in.

Etienne: Yes.

Andrew: So budget is important. Pain is important, right? So if it's a small problem, if it doesn't really hurt, no one wants the solution for it. But if it's a huge dramatic pain, then a company is willing to pay for it. I get that. The part that I don't get is market education.

Etienne: Yes.

Andrew: What do you mean by market education? How do we use that to see if the

problem is significant enough?

Etienne: So it's a matter of removing friction. So ideally we want something that we're able to sell initially, go for (?). The more market education is required the harder it's going to be to actually (?).

Andrew: If I have to actually explain to people using the (?) example, what AB testing is, why AB testing improves the bottom line. How AB testing gets done? The fact that it . . . If I have to go through all of that, it's going to take me too long. It's going to be too hard. Got it. And so then I would want to avoid it, but if I just say AB testing is done simpler and an agency gets it, then I have a significant enough problem and it doesn't require too much market education for me to sell it. So . . .

Etienne: Exactly. And that's what you want (?) and having $82,000 in debt because it was a new technology to market. So it was our firm to be able to convince people that they needed that technology.

Andrew: Okay. All right. Onto the next big idea here on the board and that is to create a bare bones, minimum viable product, that MVP, that generates value. You talked about . . . oh, this is an MVP that I love that sent me. Oh, where is that actual file? Did I just put it in the wrong place? I probably did. It's really . . . Usually I would just brush past it and say, "All right, I have these other images, but this one is so important I'm going to pull that screenshot back up." Oh, I did have it on the screen. Is this it? This . . . What is this?

Etienne: So basically, what happened with Cycler is the co-founder of the company ended up building a prototype of the tool in Excel.

Andrew: Oh, this is an Excel page that I'm looking at?

Etienne: Exactly, so this is the output of the [??].

Andrew: I see.

Etienne: So being able to use different macros, he's able to populate the information and create a profile for a customer.

Andrew: You know what? The reason I was hesitating to show this for a moment, I thought I had the wrong one, was when I first saw it, awe can I even show it? I know how I can show it. This is the part that I saw. I'll bring it up on the screen. There it is. The part that said some, number one, number two, etc.

Etienne: Ah, yeah, yeah, yeah.

Andrew: So, I thought yeah, Excel spreadsheet but, the rest of it does not look like an Excel spreadsheet.

Etienne: It looks like a really basic product. So, basically it works. It's all based on just answering a few questions in Excel And it creates. It will create a profile.

Andrew: OK. So, what he did was. He had an idea and instead of coding it up, instead of building it all the way through, he just put it in Excel. What was the basis for his idea?

Etienne: Basically Wayne actually spent 15 years working in sales. He was using this kind of profiling to be able to better understand the personality of prospects. Using a psychometrics tool called Five-factors, was able to create a profile that would actually calculate different techniques to help sell to prospects.

Andrew: I see. I would understand if someone was looking at these notes here. Are they strictly business? Are they more about analytics? Do they have more champion potential?

Etienne: Could they be champion could they be early adopters?

Andrew: Sorry? Oh, are they an early adopter of yours? Got it. So, by putting it into an Excel spreadsheet using macros, he was essentially able to produce the features that he wanted his software to have. Got it. Then that was his first viable product. He was able to put it in customer's hands to see what they interacted with. You know I, the other day, talked to the founder of this company. You need a budget.

Today it's a multi-million dollar piece of software that sells tons online. But, when he first started it was just an Excel spreadsheet that had all your budget items and all you had to do was fill in the right cells in Excel and you'd have your budget. He started out with an Excel spreadsheet and then, once he got customers to buy that, then he went out and hired a developer to turn that spreadsheet into software that did, essentially, the same thing with a few more features. I think it's doing now $4,000,000 a year.

Etienne: That's pretty good.

Andrew: Yeah. Competing against Intuit and Microsoft Money.

Etienne: That is one thing you learn when doing research in large corporations, is that there are so many different tools that were created by employees using Excel. Excel is one of the largest competitors to start- ups.

Andrew: Yes.

Etienne: There are so many different products created with Excel.

Andrew: But, I understand that a company could use Excel internally for all kinds of things frankly, everything from contact management to deep data analysis. The part that always surprises me is that someone would say, "You know what? I'm just going to build my first version of my software using Excel." Here's what the first version looked like in this case. Is this what it looked like afterwards?

Etienne: It was a sheet . . .

Andrew: This is the final product?

Etienne: Exactly, yeah. This is what it looks like now. So, it really evolved but, it's still based on the same items that were validated in those first few meetings with prospects and customers.

Andrew: All right. So, we have our minimal viable product. It can be as simple as an Excel spreadsheet and we want to move on to the next big point. Which is, to find, not just early adopters but, the right early adopters for our business. You give the example of Michael Wolfe. Here let me bring him up, this guy. Is that Michael? I think that is. Yeah.

Etienne: Yes it is.

Andrew: That's him right off his Quora profile. That's where we pulled that. He had a situation where he had opportunity to get early adopters and they were willing to pay but, he said, "No." What was the business that he had and why would he turn away early adopters who were willing to pay for it?

Etienne: So, basically Michael and his co-founders were working together. They were, for six months, interviewing various companies. They knew they had portion [??] information security they needed to have that first client that would validate their model. But, also be a lighthouse customer to be able demonstrate to other companies that the problem is [??] and that there is a significant credibility in that in their company.

Andrew: Okay.

Etienne: They were able to sign small banks because initially they realized that banks would be the early adopter of their technology. [??]

Andrew: Banks care about losing information tremendously. In a banks case you lose information it's really a financial pain. Then if banks are coming to him and saying, all right, we're up for it. We'll pay you to help us protect our data so we don't lose information. Why would he turn them away?

Etienne: They made the decision to go enterprise. They really wanted to get the top tier companies. They wanted to have that first customer to be able to demonstrate what they can actually do with a large corporation. They would [??] a person to sell to a bank in a [??]. He turned down that deal because it would take them a lot of time to manage that account and be able to maintain that account, which would take away from selling to large corporations, which was their objective as a company.

Andrew: I see. If they learn how to create a product based on feedback that they get from a smaller bank they're not going to be able to create a product that makes sense for a bigger bank. Bank of America doesn't have the same issues as First Bank of Queens New York.

Etienne: It's also a matter of . . . because in B2B one of the core is case studies. A

case study from a small bank does not convince another large corporation to buy the product.

Andrew: Got it.

Etienne: It's the same thing. If a large corporation sees that drop box has declined, or a smaller start-up is declined. That's not going to convince them to buy large technology.

Andrew: All right. As a result they ended up getting Bank of America as a client. Is that right?

Etienne: Yes, exactly.

Andrew: First big one. They sold the company for how much? Do you remember?

Etienne: 450 million to Cemen Tech.

Andrew: Was it 450?

Etienne: I believe it was 450. [??]

Andrew: No, 350. Actually, it's hard for me to tell. I think according to Venturebeat this article was 350.

Etienne: Okay. Okay. That's still a significant amount of money.

Andrew: Very significant amount of money. That's what you're talking about.

Etienne: Yes.

Andrew: If they would've gone for a small mom and pop. If they would've come to, Andrew, for example, and said, Andrew, you have a company. You don't want to lose your data. We'll build something for you. I wouldn't have been a good case study. I would've given them proper feedback on their product. All right. Boy, you know what? That's a hard thing to do.

When you really want to sell. When you really want to see if your product is, if anyone loves it. When you want to bring in some money to turn away customers because they're the wrong first customer is really painful.

Etienne: It's all about product focus, actually, to the core thing for start-ups be we have only so many hours in the week. It's important to be able to focus on a specific market.

Andrew: I have that, by the way, too with me at Mixergy. It's so easy to take money from someone early on, but if I then build something just for them and not for a bigger community. It's hard to . . . you know what? I don't want to get to deep into Mixergy. I want to make this about how it works universally.

One of the cool things that I noticed about this headline is, look at this. Vontuse [SP] 350 million dollar win shows how patience and focus pays off.

Etienne: Yes.

Andrew: [??] In the sale we see what you talked about. All right. Now onto the big board. Establish prospect, trust. You gave us an example of how this company did it. Says directly out of your book, Lean B2B, and I will zoom in so we can see it.

Etienne: Yes. The companies called iBwave. It's a very niche market. They're basically doing tools to help design and building wireless systems. I should say one of their clients is actually the 49ers stadium in San Francisco.

Andrew: Yup.

Etienne: Basically, they have a software that helps people working in the stadium [??] design the optimal system for the wi-fi system, the wireless system.

Andrew: Okay. They had an issue that a lot of companies have which is you're new. We don't trust you. That you're going to go away. Your code will disappear. What did they do?

Etienne: They actually, clients ask them to put the code of the product in escrow. [??]

Andrew: They put the code in escrow.

Etienne: Yeah.

Andrew: That means no matter what the client still has access to the software that they want. Either directly . . .

Etienne: Exactly.

Andrew: . . . through iBwave, or through the code that they'll get in escrow.

Etienne: [??]

Andrew: The client gets the code out of escrow if what? What are the contingencies that allow the client to get that code?

Etienne: It's based on the product being successful, so, delivering on the value. [??] demonstrate credibility.

Andrew: Okay.

Etienne: Initially they didn't have a brand name. No one knew about the company. That was one way to speed up that adoption of the technology.

Andrew: I sometimes wish that consumer based businesses and businesses that

are aimed at smaller companies will do the same thing. That they say, look, we want you to use our software in your business. We stand by it. We believe it's going to be a success, but if for some reason it's not a success we're going to give you the source code so you can continue on. I've had so much software on Mixergy itself from companies that were just getting started, and I believed in them, and I wanted to support them. We implemented it on Mixergy and then suddenly the company was sold and the product was gone or the company closed and the product was not supported anymore.

Etienne: Not in this case because they demonstrated that in 55 days companies could recuperate their investment. And for the last ten years they've been non-profit 100 less in Canada.

Andrew: Wow.

Etienne: It's actually a very successful bootstrap business.

Andrew: All right, let's take a look at the next item on the big board. Pivot tactfully to grow your company in the right direction. Let's take a look at dotCloud. How did dotCloud do it?

Etienne: So basically dotCloud was a platform as a service company and they ended up at . . . It was a success [??] a few companies were using their solutions, the developers were using their solutions to implement code. But they realized that it was a very crowded sphere and there were big players like Heroku in that sector. And they thought about it, thought about it and they figured out that they could actually do what [??] calls a zoom out pivot which basically means going up one level and creating a platform around what you're working on.

Andrew: Okay.

Etienne: So then you get their platform was successful, but they ended up creating what they call the docker containers which basically allows the developers to transfer codes without having to redevelop connectors to different technologies. It's possible to work in different environments and move environments effortlessly.

Andrew: Okay, and . . .

Etienne: So what happened after . . .

Andrew: Sorry, go ahead.

Etienne: Yeah, so what happened afterwards is it quickly became super popular. There is a lot of companies that started using it. There were meetups. People starting their reactive groups talking about a docker. So in just a few months it really became super popular. And companies like Google adopted the technology and now they're working with docker I.A. afterwards. So it really validated that change with the success.

Andrew: We can kind of see the before and after on their webpage today, dotCloud.

Is that platform as a service on the left, right here? And then Docker on the right, the new one.

Etienne: Heroku actually became one of their clients.

Andrew: Who did?

Etienne: Heroku, so one of their competitors initially became one of their users.

Andrew: Oh, Heroku, so with the left business they were competitive with Heroku and now they created something that even Heroku could be a client of.

Etienne: Exactly, exactly.

Andrew: Got it.

Etienne: So they created a new [??] for them by going one level up.

Andrew: I see. Let me see if I understand that right actually. The zoom out pivot is, for example, Mixergy does interviews, interviews do okay. Well, actually they do really well, but let's suppose they only did okay. I would zoom out by saying I now have a platform for doing interviews instead of me doing interviews myself, anyone could do interviews using my platform and I'll just make it easy for them.

Etienne: Yes, yes.

Andrew: That's what you're talking about, okay.

Etienne: Yes. Another example is there's a company here in Montreal. They were doing software through email, through email integration and they became an A.P.I. for companies wanting to use email as a tool.

Andrew: I see.

Etienne: [??] the A.P.I. to connect to email inbox.

Andrew: I see. All right, onto the final point which is to keep your business lean to avoid quitting. Let's talk about another painful, painful example of that. Here it is. You had that with this . . . Where is that?

Etienne: Flat Back, so it's a company . . .

Andrew: This was the only screenshot we can find.

Etienne: Yeah, yeah, it's another business URL.

Andrew: What was Flat Back?

Etienne: Basically we created a business to ad- . . . We created a tool to add a layer on top of the web to be able to add what we call flags or comments on elements of

web pages anywhere on the web. We were bootstrapping the business, so we had money that we invested in the business and we had the developer working. But it ended up taking six months more than we had expected.

Andrew: Six months more to create this thing.

Etienne: To create it, exactly. It's the creators that are the technology behind that would actually work for [inaudible 00:04:38] on different browsers.

Andrew: And you're saying that, of course, if it takes too long and you don't have funding, then you're going to go out of business. By keeping lean you have a much bigger runway. What could you have done to go even leaner than you did back then?

Etienne: We should have actually got feedback from users much earlier. So we waited nine months for the [??] and when we did, we actually valued that some large companies were interested in technology.

Andrew: Okay.

Etienne: But we ran out of money without being able to build the last few features that we required. We needed to be able to sell the solution.

Andrew: I see.

Etienne: So after that, the company collapsed based on just . . . or lack of funding and not being [??] to actually sell the technology.

Andrew: So feedback sooner and what we've learned in this conversation is not just feedback through surveys, but feedback through will you pay for this, we're about to finish building it.

Etienne: Exactly, exactly.

Andrew: All right, so let's . . . That screen just went blank because I was trying to see if I could show the Vimeo video that you guys have. This is from you. It's still up online.

Etienne: Yeah.

Andrew: See. All right, why don't I instead of showing that, show the book. This is the book that shows the process, the lean startup process as it applies to business to business. And we've seen some of the ways that business to business is different from consumers. When you're selling to a business, yes, they're okay with the lean product, but they also need the safety and the trust which is why we talked about escrows and option for giving trust. Right? Consumers are willing to be . . .

Etienne: And reduce risk.

Andrew: . . . much more trusting, businesses need much more assurance.

Businesses are willing to pay upfront to prove versus consumers which are more you could have just tried for free. That's why you wanted to write this book.

Etienne: It's [??} a book I would have loved to read as an entrepreneur starting [??].

Andrew: All right, thank you so much for doing this. Anyone who wants to follow-up can check out Lean . . . My head's going over to the right. I might as well just point and bring it up on the screen, LeanBtoBbook.com. That's what's been on my right monitor the whole time we've been talking. Thank you so much for doing this. Thank you all . . .

Etienne: Thank you.

Andrew: . . . for being a part of it.

Etienne: Appreciate it.

Andrew: You bet. Bye, guys.