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PROFESSOR:

Recap last night and give you-- remember what we had for an overview. The first part was that it's not about the business plan, it's about planning. That was the first point I hope you got. The second one is that planning is not a static process. It's dynamic. And therefore, your plan is going to be dynamic. However you write it down, or put it in slides. That's the first set of points.

The second is the three Ys-- or sorry, the second is your goals and tasks in this whole process. It's to create value. And the second goal is to harvest some of the value. And as we pointed out, those are easy to say and it's increasingly hard to do. The rest of the course will be telling you try to how to do those things.

The questions that investors are going to be asking are the 3 Whys. Why this? Why is this something important? Why now? Why is now the right time to do it? And why this team? Why is this group of people the right people? And if they get through those, the fourth one is why won't it work?

Now, I said that that's what investors ask, and that's probably what you ought to be asking. Because the final point is, the most scarce resource is not money, it's your time. So if you're not happy with those answers to those questions, then you ought to iterate and find some new questions-- a new approach to those. In fact, tonight our speaker Bob is probably going to talk about how you've iterated [INAUDIBLE] things on that score.

OK, so tonight we're starting down the path of filling in the business plan. The first thing we said if you've got to create value. And one of the ways you can create value is to find a customer.

And Bob Jones, who's one of our highly paid volunteers, once again tripling your income. Bob is-- was a classmate of mine at Sloan. People in the audience from Sloan, do you know about the C-function? Still going on? You like that? That's Bob. He's the guy that organized the first C-function. In addition to being a serial entrepreneur-- for those of you who are not from the

Sloan side of campus, the C-Function is consumption function in economics. And you can picture what might be consumed at a Friday night consumption function.

So we'll leave it with that. Bob's a serial entrepreneur, still at it. Like a lot of the speakers that we're going to hear from, they're actually doing the very things they're talking to you about. So this isn't just an academic exercise for them. Bob's other claim to fame is he plays pretty good blues guitar and he has a blues band. But I'll let him decide whether he wants to say anything more about that. And with that, Bob, the clicker is yours, sir.

BOB JONES: Thanks, Joe. So good evening, everybody. I'd like to congratulate you on the good sense required to sign up for one of the best courses that the Institute offers. It's not the first course here you'll take here that has you drinking from a fire hose. But this one's pretty valuable stuff.

How many of you are in this because you're thinking of competing in the 100K competition? Good. How many of you are contemplating making your living in entrepreneurship when you get out of here? Oh dear, you poor things. How many of you actually have something going right now? Wow. Well there's therapy available for you guys, and medication. This is a little bit like chronic illness, you might be able to tamp it down for a while and then it'll pop up again. You won't be able to get rid of it once you're infected and afflicted.

I'd love some sense of what you guys are working on, just some sense of the spectrum of who's doing what here. Do you have a dog walking service for two-income families, or do you have something that detects the need for insulin in a patient with diabetes? So somebody raise your hand and give me some sense of what it is you're working on, please. Yes, sir.

AUDIENCE: Business systems for small- and medium-sized

BOB JONES: I'm sorry, business what?

AUDIENCE: Business systems, IT systems, for small- and medium-sized businesses [INAUDIBLE]

BOB JONES: OK. What's broke that you fix?

AUDIENCE: They don't have large enough IT organizations. They can't afford to have [INAUDIBLE] like more large organizations do. [INAUDIBLE]

BOB JONES: All right so you're sort of an outsourcing service.

AUDIENCE: Correct.

BOB JONES: Rent an expert. Good. Who else? Who else is working on something? You can't all be IT people. Yes, sir.

AUDIENCE: Personalized cancer treatment.

BOB JONES: I'm sorry, say that again.

AUDIENCE: Personalized cancer treatment.

BOB JONES: Personalized--

AUDIENCE: Cancer treatment.

BOB JONES: Oh. Well, tell us a little more about that.

AUDIENCE: [INAUDIBLE]

BOB JONES: I know that cancer is actually a family of disorders it's not--

AUDIENCE: For one cancer, there are about 20 [INAUDIBLE] drugs. [INAUDIBLE] And they are not the same. You have to choose the right one.

BOB JONES: So do you have a set of molecular diagnostic tests which help determine which form they have and therefore which therapy they should get?

AUDIENCE: [INAUDIBLE] --personalized drugs.

BOB JONES: And who will be your customer? Who will write you a check, the patient, the hospital, the insurance company?

AUDIENCE: [INAUDIBLE] the insurance company [INAUDIBLE] the patient [INAUDIBLE]

BOB JONES: How many of you are thinking about working in the medical arena? Yeah, OK. You know then that there's a sort of a cluster of customers that you have to work with. The doctor has to request it, then you have to go arm wrestle with the purchasing agent, or the formulary committee, or whatever. It's really quite convoluted.

OK, well that gives me at least some idea of how eclectic you guys are. So what I'm going to

try to do-- Joe, tell me how to make this gizmo work.

PROFESSOR: Turn the switch on the side.

BOB JONES: Oh, God, turn it on? Really demanding. OK. I like to learn a little bit about you. I think we've covered that. I'm going to try and provide you with a couple of hot tips in the course of this 90 minutes. I have the sort of quaint notion that if I'm going to ask you to pay attention to me for an hour and a half I ought to try to give you something of value in return.

I realize that's sort of old school, but I hope to help you find some customers and succeed with your businesses. And I'm going to do that using a couple of product launches that I was involved with. There are times when people speak to you and they say, well, there's been 20 clinical trials done and the results are almost indisputable. This is not one of those. This is anecdotal. You're not going to be hearing the voice of God. You're hearing my opinions, and they may be wrong, disclaimer.

But I'm going to walk you through a couple of product launches and some lessons that maybe you'll learn. And there may be an opportunity for equal opportunity embarrassment in the course of this evening. I will fulfill the responsibilities of leadership by embarrassing myself first, and then I'll offer you the chance to follow on.

So I went to a couple schools, I had a couple normal jobs, and then I realized there was something wrong with me. And left and went off and started up three different medical companies in a row. And took a break from entrepreneurship to serve as CEO of a soy foods company. It was turnaround. The company was a dreadful mess and took a couple years to fix it. Had to fire 75 people in the process, so it was a lot of, sort of, block and tackle work.

And I thought it would be kind of fun and relaxing to join a boutique consulting firm, helping people do what I did. And it was fun for a couple years and then it got bored-- boring, and I left and started another company. Which I'll tell you about, maybe a little bit, in the course of the evening.

So a couple years ago, The Wall Street Journal did a study, during the last recession, of who succeeded and who failed. And did the people who succeeded aggregate around any particular plans? And they did. One group turned out to be cost leaders. They aggressively cut their costs. And that was their differentiator. That's not you.

The other group were innovators and they focused on building brands. That might be you. But

there was a fundamental question that the successful ones asked, which is how is your end user dissatisfied? Because that's where the opportunity lies. And at an august institution like this one, it's often thought that the answer is technology, but it doesn't have to be. If there's 50 kids in town that want a bicycle, and there's no bicycle shop, that could be your opportunity.

So I'm going to make an assertion right up front, which is your business might survive, but it won't prosper until you know what are you really selling. And there'll be a couple times tonight when I may interrogate you ruthlessly on this point. Who wants it? So, literally, who cares? And how do you find them?

And I know that our friend Steve talked to you a little bit last night about raising capital, but it's kind of a dirty secret amongst investors that most of them really live in terror. Because they know that if they invest and 10 of you guys-- eight of you are going to fail. You're all smart, good looking, charming. I'm sure you're good to your parents and all of that, but you are going to fail.

Which means their investment is gonna evaporate. And investors, venture capitalists in particular, raise money themselves. They go around to pension funds and say, please contribute to our fund. And if you lose their money they are unable to raise a fund next time and find themselves unemployed. So, oops, the emperor is not wearing any clothes.

So when they look at you, they want to try and figure out do you have a chance of succeeding with your business. And the experienced ones know, there's really one non-negotiable requirement. And that's you have to have customers. You don't need to be smart. You don't need to be good looking. You don't need to get rich. If you have customers, people will think you're smart, you will make money, and if you make enough money, they'll think you're good looking.

So they want to know, do you have any customers? Will you have any? Do you even know you need them? And by the way, have you done some homework? How are you gonna find them? And how much are they worth? Are you going to spend \$5 to acquire a customer whose lifetime value is \$3? Whoops, probably not a good idea. How long is it going to take you to get there? How many do you need in order to reach prosperity?

I think there's two descriptors that you want. You'd like to be important and you'd like to be unique. And, of course, the sweet spot is when you're both. So I think you can make pretty

good argument that air is important arguably, not unique. And I don't want to traumatize any of you, but some would argue that MIT decals are unique but possibly not important, possibly. So can you make a decent business selling either of these? Well, yes, no?

AUDIENCE: People do.

BOB JONES: People do. People do. Give me an example of an opportunity to sell air.

AUDIENCE: Chem labs.

BOB JONES: Chem labs, OK, that's a bit exotic. You guys scuba dive? I did my check out dive off Catalina Island in California. I was about 100 feet down in the kelp beds, ooh, I've got about 15 minutes left. I would have paid a lot for some air.

You know those packages that have all those little bubbles in them and you get really neurotic and pop them all? You know what that companies called? Sealed Air Corporation, six billion.

And of course the opportunity for-- to take \$0.15 worth of material and sell it for \$4 or \$5, obviously, is picking the right positioning and the right opportunity. So I'm being a little tongue in cheek here, obviously, but the point is to figure out who is going to find your offering unique and important. So rather than start with how fabulous your product is, who cares? Who actually thinks it's unique? Who's important? Figure out how you're going to find them and tell them about what you've got, and then take their money.

Now, simple is not the same as easy. This is simple, it's not necessarily easy. But what happens if you can't meet those two requirements? I'll give you a hint, what kind of fish is that? Right, that's what's going to happen to you. You will flounder.

So let me give you an example. This was back in the day. I joined a company in California. It had been 200 million in annual revenue for 12 straight years, arguably a sleepy business. And they got bought by an entrepreneur, took them private, leveraged buyout. So I want to kick up the sales of this outfit 50% in three years and take it public.

So we fired the senior management team, brought in a bunch of ostensibly energetic entrepreneurs, and gave everybody some stock. So here's some stock for you, and here's some stock for you, and here's some stock for you, and let's not argue. Let's make this worth something. Really, very good idea. It was highly motivating.

I was running the clinical nutrition division, really profitable. We would make a liter of solution, IV fluid, for \$3, sell it for 70. Nice margins. But I had a bad habit of going out in the marketplace. And I did, and I discovered that this business was going to go away. Managed care was coming, changes in reimbursement structures, et cetera. And it was going to go away before we had a chance to go public. This was bad news. I needed to find a new opportunity.

So I thought about it. And I thought, well, if this science of nutrition is so awesome for people who are in the intensive care unit it ought to be pretty good for people who are just out walking on the street. Maybe we could reposition this, go for a much broader market. Nobody had done it. Power bar didn't exist, none of those things happened. But, like most entrepreneurs, it was a triumph of energy over good sense. I said, let's try that, even though no model for success existed.

I had spent some time at Baxter and I knew something about the market for people who have kidney failure. At the time, there were 400,000, the market was growing like crazy. And every one of the patients who was on dialysis went three times a week to one of 300 dialysis centers in the country, all of which are identified in a federal document. So I knew where to find them. I knew literally where they would be on Tuesday, Thursday, Saturday.

Now, when your kidneys fail you can't casually do something that so many of us do, which is have a drink, because you're unable to eliminate the fluids. So it's not uncommon for a dialysis patient to gain eight to ten pounds between Monday and Wednesday. Part of what dialysis does is it wrings out that extra fluid. So these patients are fluid restricted.

For-- due to other things that your kidneys do for you, many of them are clinically malnourished. And the only nutrition supplements that were available were liquids, Ensure, things like that. I said, well, duh. What's wrong with that? Why don't we make a supplement that's high in the stuff they need, doesn't have the stuff they don't need, doesn't have any fluids. Let's make a nutrition bar.

We had the technology to do it. We created something we called Regain. We weren't required to do a clinical trial, it was just food, but we did. Kaiser Permanente, for those of you who live in California. Stuff worked. Got the results published in the Archives of the National Kidney Foundation, peer-reviewed journal. Good scientific support, all the biomarkers improved, patients got better.

We said, well, we know how to do this. We know where to find them. We know how to find the market leaders. Let's call the renal physicians. Let's call the dietitians, say we've developed something that's high in what your kidney failure patients ought to have and doesn't have any fluids in it. And, what do you think? The typical reaction was I wish I had thought of that.

So, well, how many of your patients do you think this would be suitable for? They'd say, well, all of them. How many days a week would you recommend this? Seven. Say what, how do you feel about \$3 a bar? Sounds right to us. We said, this is a pretty good little business here. Let's do it.

We said, how do you feel about the competition? They said, well, yours is the only one that doesn't have any liquid in it. It's obviously going to have a stranglehold on this market. It's perfect. So we said, well, that's a pretty good opportunity for the corporation, it's going to replace some of the revenues. Let's make a whole bunch of it. Let's take the beauty shots and make the brochures. Let's haul in the sales force, set up a commission plan, train them on how to do it, give them some incentives to go out there and sell it. And let's launch, which we did.

It was a complete disaster, just an absolute failure. Revenues came in at less than 10% of what we forecasted. And, to make matters worse, I was part of the senior management team. And we would meet once a week, conference room-- once a month we would go over how our business was doing. So I'd have to stand up in front of my peers and say, well our forecast for this month was \$400,000 and we came in at 32. They'd say, Bob, didn't quite understand you. What was that number? 32. So what did I do wrong? Tell me why. Yes, sir.

AUDIENCE: Your customers didn't like it.

BOB JONES: My customers didn't like it. Tell me more about that. What didn't they like?

AUDIENCE: They didn't like the Regain. They were happy with the liquid product.

BOB JONES: They were happy with the liquid supplement. That's a perfectly plausible answer, but it's not the right one. It's a very good speculation, happens not to be the problem. Go ahead, sir.

AUDIENCE: Taste?

BOB JONES: Taste, well that was a factor. We thought it tasted pretty good. But it turns out when your kidneys fail, something shifts in your palate and protein tastes like spoiled meat. Oops, that

was an issue. What was the big issue? What was the fundamental flaw, the most obvious thing that I did wrong, in retrospect? Go ahead, sir.

AUDIENCE: I have a question, who paid for the product?

BOB JONES: OK, that's a pretty good question, who paid for the product? We're closing in on the issue. OK, here's a hint, what's the title of my talk tonight? That was a clue. OK, so what did I do wrong? Yes, sir.

AUDIENCE: You misidentified the customer.

BOB JONES: I misidentified my customer. You may be exempted from the rest of the course, that's exactly right. Who did I survey? I surveyed the clinicians. But they don't buy it, and they don't put it in their mouth and eat it. Oops. Perfectly logical, in the pharmaceutical world you call in the doc, the doc writes a prescription. Doesn't matter whether you like it or not. You got an ear ache. Take this stuff for five days, your ear ache goes away. Too bad for you if it doesn't taste good. If I get her to write the prescription I'm done. Not in this business.

In this business, they have to go to the store themselves, pay for it with their own money, but it, eat it, like it, and buy it again. Well, when we finally talked to them, they didn't want it. And they couldn't afford it.

OK, who gets end-stage renal disease? Well, it turns out that 33% of them get there from a lifetime of mismanaging their diabetes, and 44% of them get there from a lifetime of mismanaging their high blood pressure. So 3/4 of my target customers have not taken care of themselves for their entire life. Why would they start now?

Furthermore, once your kidneys fail and you end up on dialysis, a well-intended social worker sort will say, well, Bob, you got to be in here tethered to this machine three days a week. Obviously you can't work, so I'll put you on public aid. Well, now you don't have any money. If you do have \$5, you're going to spend it on beer and cigarettes, not on my product.

There's one final issue. What was our sales channel at the IV nutrition company? We sold to hospitals. With this business, we had to sell to retail pharmacies and they wouldn't carry it. Well, let's talk about that for a minute, because that's kind of fundamental. If you ever want to have a laugh on a Saturday afternoon, walk up to the pharmacist in your local Walgreens or CVS and say, I've got a product you've never heard of from a company you've never done

business with, and I'd like you carry it. And watch as he falls on the floor and hysterics. Why?

Well I wasn't familiar with this. I'd never had any exposure to this world and finally, one day, one of them kinda put his arm around me and said, Bob, come here. See this foot of shelf space? It's a linear foot, right? I have Crest toothpaste on that foot of shelf space. I have all these complex algorithms that are going to tell me, within a couple of dollars, how much revenue this for a shelf space is going to generate for me each month. Now, if I make room for your product and push Crest off there, put your product on. I don't want to lose any money. So, don't go to any trouble, just write me a check. They call it slotting fees, you might call it extortion.

With most of the major pharmacy chains this tab is \$1 million a quarter, plus 6% of your top line revenues, plus guaranteed resale, so if it doesn't sell to ship it back to you for full credit, and you put one SKU in each of their stores and fill the entire pipeline for free. They'll pay you, if anybody reorders. It's pretty expensive.

Well, we couldn't afford that. So, we had a few problems with this business model that we'd put together. And we were trying to show Wall Street we were good candidate for a public offering. And if we had our public offering the stock that we handed out was going to be worth something. My failure was jeopardizing our ability to do that. Which meant not only was I'm the doghouse with my boss but also with my peers.

And each month I would say, well, you know it's taken a little longer to take off than we thought. Give us a while to keep moving with the sales force. And each month it continued to be a train wreck and it went on for an entire year. It ruined a year of my life because, as this gentleman said over here, I misidentified my customer.

So, what did we do about it? Well, we learned about inside sales. We said, 25% of these people take care of themselves. We ought to be able to find them. Furthermore, somebody ought to pay for this. Let's try Medicaid.

Now, you may or may not know that Medicare covers you if you're old, it's a federal program. Medicaid covers you if you're broke, it's a state program. What do you think are the chances that Illinois and Indiana have the same program? Real slim. We got it reimbursed in 40 states. It was almost as fun as 40 consecutive dental extractions. I said, this is just a god-awful way to make a living, sold the business.

Parenthetically, yes, we did well enough in our group with our other products that we compensated for the shortfall with this. And when we sold the business, we didn't make any money but we recouped our investment. So I escaped financially intact, spiritually battered and abused, much wiser, but considerably sadder.

But let's fast-forward a couple years. I did two more of these things and got better at it and after a while got recruited by a group of docs at Harvard Med School. And they hauled me in from California, tough sales pitch to my family. Because we were in Southern California. They said, it snows in New England, right? It does.

So we launched a new company with these guys. We looked over all the stuff that they were working on, figured out none of it was going to come to market before we ran out of money, said well how you guys feel about diabetes? The answer was, well, we like diabetes. OK, well, we need to be in a field that's big enough to get us noticed and a need that's small enough that we can handle it with one poor underpaid employee.

So I had tuition that there was something they needed and weren't getting. Statistics, at the time there were 10 million people diagnosed with diabetes, 4 million of them used insulin. You have diabetes and you eat something, your blood glucose goes up and it stays up, because insulin incorporates it into the cells and brings it back down. And if your body stops generating insulin, or if you stop being sensitive to insulin, then it stays up and causes all manner of problems. 4 million of these 10 million people injected insulin to lower their blood sugar. And if you get it wrong your blood sugar goes too low.

Well, most of the publicity for the damage that's done from diabetes comes from it being too high. It's a leading cause of blindness, kidney failure, and peripheral amputations. So it's catastrophic. Introducing tight control-- that's three meals a day, three small snacks a day, regular injections of insulin, restricts the bandwidth, good thing to do-- triples the incidence of low blood glucose. And it must be treated right away, because you faint, which is bad if you're stuck in a traffic jam. And it's particularly bad if it hits you while you're asleep. If you're awake, you start feeling clammy and tremulous, and you know you've got a couple minutes to go drink some orange juice, or eat a candy, or whatever, and elevate your blood glucose again. But if you're asleep you may not wake up.

OK so what do they do about it? Well, typically, big injection of insulin, big nighttime snack, the hope, that the two will balance each other in the course of the evening. Unfortunately it doesn't

work because everything in the nighttime snack turns into glucose at the same time. So the spike is higher, but the duration no longer. Translation, grossly oversimplified, is that the food runs out at about 2:00 in the morning, and the insulin is still working, and from 2:00 am until you get up is the danger zone.

We had a bunch of focus groups. I lost control of myself, threw the moderator out of the room, walked in, and said, well, now that we've explained this stuff to you, tell me what your greatest fear really is. What do you actually worry about? And they all sort of said, well, I'm afraid I'll die in my sleep. I sleep in that La-Z-Boy in my living room, or I have alarm clock goes off every hour or two, just to make sure I don't have a good night's sleep, ever. I thought, well, that's gripping.

And the parents of kids who had diabetes say, every night I worry about my daughter. I go and I check on Jessica at 2:00 in the morning. My wife and I stand there and say, is she awake? I mean, is she asleep, or is she in a coma? Well I don't know. We say, Jessica, wake up. What, what? You all right? Yeah, I was asleep. Good, go back to sleep. It sounds comical but it's quite gripping.

We said, well, we've identified something emotional here. So we put together a combination of nutrients that turned into glucose consecutively, sucrose, protein, uncooked cornstarch. Being fundamentally a marketing guy, of course I dubbed it timed-release glucose. And those ingredients are in a birthday cake. But we managed to get a patent on it anyway. Because if you use those ingredients in conjunction with materials that say diabetes, you're violating my patent. How about that? Novel and non-obvious to a person of ordinary skill in the art, and you have one of the great experts as one of your resources, that's your host, Joe Hadzima. I hope you'll talk about this a bit later.

So we did make it taste good, tasted sort of like fudge. And we gave it a non-medical name. Would anybody care to guess why? I heard a murmur, but I don't see a hand. Yes ma'am.

AUDIENCE: [INAUDIBLE]

BOB JONES: That is true but that was not the explanation. Sir?

AUDIENCE: Bypass FDA?

BOB JONES: Again?

AUDIENCE: Does that mean you do not have to go through FDA?

BOB JONES: Well, we didn't have to go to FDA but that's not why we gave it a non-medical name. Sir?

AUDIENCE: Because you're trying to reduce fear?

BOB JONES: Yes, but perhaps not the fear that our audience would think. We talked to our patients, our customers, something I'm going to encourage you to do. And they said, Bob, I'm not a diabetic. I'm a person who has diabetes. I'm a lawyer. I'm a banker. I'm a professional. I have a condition, but I manage it, just like you might have a headache, but you manage it. It's nobody's damn business whether or not I have diabetes. And if I end up in a meeting that lasts half the night, and I have to consume your product, I don't want the other people around the conference table knowing I'm medicating. It's none of their business. Thank you.

Furthermore, I had been arm wrestling with the FDA because I wanted to put "for diabetes" on the package. And what our customers told me was, if you do that, I won't buy the product. So I was trying very hard to do the one thing that would have scuttled the business. Fortunately, our customers advised us and we listened. And they said, our kids have sleepovers, and they have to do one of these at night. And they would rather eat worms than be different from their peers. So make it look like something they can offer their friends, like an energy bar. Timed-release glucose, ooh. Hey, guys, you want one?

So I said, OK, we're bringing some consumer marketing in to all this science. So this time around instead of just talking to clinicians, they were important but they were not sufficient, we talked to parents, we talked to patients. We went to all these things at elementary schools that parents of kids with diabetes would attend. And you know those little, bitty chairs? Sat there with our knees banging against things and took lots of moms to lunch. We learned an awful lot about this.

How many of you know someone who has diabetes? It's really important to go have these conversations. And finally, I said, well, what kind of advertising do these people see? There are all sorts of diabetes magazines out there. So I bought a half a dozen of them. And the typical ad was on the back cover, a full page blow up, of a hypodermic needle. Just the thing to make you feel warm and resonant, right? I mean the copy would say, my needle is sharper than his needle. It doesn't hurt as much, buy mine. I said, ew!

So we put together an ad with this agency that had flying pigs. It was just so ludicrously out of

place in this magazine, nobody turned the page. And there was some kind of lame copy about sleep perchance to dream, et cetera, right? Everybody read it. We ran a little violator across the corner of the ad. It says, for a free sample call 1-800 and our number.

Stuff started happening. We were at 238 Main Street, up above what was, at the time, a barber shop, in a little ratty office. When we started getting 100 calls a day, we needed more phones. 200 calls a day, we said, jeez, we better get some people to answer the phone. Kendall Square, of course, has more geniuses per square foot than most places. So we basically just went downstairs with a mirror, and we held it under people's noses, and if it fogged up we said, would like a job? And filled the office.

300 calls a day, we said, God, we can't keep track of these people on index cards, we better install a database. 500 calls a day. 500 calls a day, we went off and rented some of these tables and stuck like three computers on the table. And we got all these people sitting there, elbow to elbow. We said, I think we're onto something.

I'm going to fast-forward to something here. We ended up in all of the major pharmacy chains and all of the major wholesalers, I'll tell you about that, and the amount we paid for slotting fees was zero. Unprecedented, in our field. I think the lesson is that understanding our customer, as opposed to with Regain-- thank you for your observation-- helped us build a better product and a successful business.

So how did we reach them? Well, we said, who influences them? Who's our customer? Who's their influencer? How do we reach the influencer? Where do they spend their money? And we discovered-- all right back up.

I hate to be crude but there are some people who have diabetes who are just determined not to take care of themselves. So should we spend time and effort trying to reach them? So how do we find the ones who do take care of themselves and, furthermore, are willing to spend a little money on their care?

Answer, they're seeing a clinician. The clinician is called a Certified Diabetes Educator. And their association, I know this will astonish you, is the American Association of Diabetes Educators. And if you go on their website, there's little tab, locate an educator. You put in 02142 out comes a list, names, contact information, et cetera.

We said, well, what do the educators worry about? We know what the patients worry about.

Patients worry they're going to die in their sleep. They go see an educator, what does the educator worry about? Who would care to speculate? What do the diabetes educators worry about that we could hook onto in a phone call?

AUDIENCE: That their patients are gonna die in their sleep?

BOB JONES: Well that's one, they'd like to know that what you have works. Thank you. What else? When I ask them, what's your greatest professional frustration? Anybody care to guess what their answer was? Yes, sir.

AUDIENCE: People weren't following the advice?

BOB JONES: Oh my god, that's absolutely right. I tell them what to do, and they don't do it! Drives me crazy. We hear it over and over again, single greatest professional frustration, the medical term, of course, is compliance. They don't comply. So we said, well, we need to figure out how to address that.

So we'd call them up, having located and-- by the way, I know these days an increasing number of people are terribly uncomfortable picking up the phone and calling someone without five emails to set up the appointment first. So this may strike you as emotionally difficult to just make cold calls, but we did. And when they'd answer the phone, we'd say, our company's worked with a group of docs out of Harvard Med School and we've invented what looks like a candy bar for addressing nocturnal hypoglycemia. And the patients love it. Do you have 30 seconds?

Say again? And we'd talk to them. The last thing we would say in the conversation is, who else that you know should we call? Oh, you've got to call my friend, Susie Cream-cheese, she would absolutely love this. So we'd call Susie Cream-cheese and we'd say, Susie, Janet says we ought to call you. Oh, well, how's Janet? Well, you know, her dog's got a hip problem, going to go in for surgery, but other than that Jan-- Oh, she loves that dog. Yeah, she does. Anyway, she said we should call.

Building relationships, right? So we started doing this stuff. Pretty soon we ended up with several thousand, highly trained clinicians talking about our product on our behalf. And their reward was not financial. Their reward was that their patients came back to see them and said this stuff's awesome. And they complied.

So we built a little flowchart. We said, we have a sales force, and we're calling on the

educators. The educators, if we do this right, will tell their patients. The patients will call us and buy the product. Well that's attractive, but it's not the path to financial heaven, because there's this group out there called retailers. How do we get into the retailers? Maybe we could have the educators call the retailers. Maybe we could have the patients call the retailers. Maybe then we could call the retailers and we'd make more money.

Well, this weekend, if you have the opportunity, stand in a pharmacy and watch the pharmacist when they answer the phone. They've got this phone tucked in their ear, pharmacy? You got 12 seconds. So how did we address this?

Well people would call, we'd send them a free sample. By the way, we had to put in some questions, because we made it under one of these web pages that said this outfit's giving away free fudge. So we got plenty of phone calls from people who were never going to be our customer. So once we figured that out we had start asking some qualified questions, tell us what brand of insulin you're typically using. If we heard, uh, oh, I'm sorry, we don't have anything for you, next. Right? But we'd send them a sample, we'd follow it up. Did you get our product? Yes. Did you wake up dead? No. Must have worked. Guys, that was a joke.

We're providing free shipping if you care to order. OK, love it. We'd take their order, we'd track it carefully, we'd call back and say, aren't you about out? Don't you need some more? Why, yes.

Then one day, we'd say, you know, this free shipping is coming to a close. And we're going to have to start charging you for it. And I know you go someplace to buy your insulin, wouldn't it be more convenient to buy the stuff at the same place you buy your insulin? Well, yeah it would.

OK, we did some homework. There was about 3% of the people in the country, at the time, that had diabetes. And they were worth about 24% of retail pharmacy purchases. Because you go in and buy toothpaste and a greeting card, they go in and buy a blood glucose monitor, strips, right? And they're worth a lot of money.

So we'd say, well, why don't we set up so you can pick it up wherever it is you buy your insulin? Where is that? And they'd say, oh, Jost's Pharmacy. We'd say, would you mind if we call Jost? No, no, no. You tell that turkey that Mabel wants to buy this stuff. I've been buying from him for years. Well hold on a second, let me get you his phone number.

Right, so, Jost would answer the phone, we'd say, Jost, we've just been selling our product to five of your customers that have diabetes. They want to buy it from you, and you don't have it. What? Who is this? OK, let me back up, Jost. And I'd walk him through, here's the five customers. So what can we do about that?

Jost would say, well, you know, we probably ought to have it but I can't possibly buy this without corporate approval. I mean, we're just one Walgreens, right? I mean, you've got to go to Deerfield, to corporate headquarters. Jost, we know that. But we also know that there's a level below which you can buy without corporate approval. That number's probably \$100. Well, yes, it is. Well, you'll be pleased to know that our initial starter pack costs \$99.95. And I can take your purchase order right now. And by the way, if it doesn't sell, you don't need to ship it back to us for a refund. We'll take your word for it. Throw it in the trash. We'll send you back the money.

OK, nobody ever mentioned slotting fees. Why not? What did we have that gave us the ability to trample all over that convention?

AUDIENCE: Customers?

BOB JONES: Who said customers? Excuse me. While my heart beats. That's exactly right. So, we've talked about this a bit

Oh, you know, there was a neat thing we did. A lot of these educators would have a class on Saturdays, one Saturday a month, they'd bring in all of their people, talk about new developments in diabetes care. And like everybody who's got to write a monthly column, or a blog, or whatever, it's hard to come up with content. So we'd say, well, when's your next one of these? Oh, it's a week and a half. Do you have your whole agenda set up yet? No. If you like this, would this be something worth talking about to your patient population? Well, yeah, actually. Well we'll send you the stuff, we'll send you the literature, but let's suppose they do like it.

They're going to ask you three questions, how's it taste, how much does it cost, where can I get it? It tastes like chocolate fudge, you'll figure that out for yourself. It's \$1 a bar. How do we answer the third question? Oh, man, there's a ShopRite I send all of my people to. Well, can we call him and tell him that a week from now you're going-- or a week and a half from now, you're going to be sending some people? No, we can do better than that. Tell that bone head to get in here on Saturday morning, he can stand up and talk to them him self. And he can see

what we're doing, and he'll stock the product. Very cool. Pharmacists would agree, nobody ever mentioned slotting fees. And I bet, you know why not.

So this was good, now we were in with the retailers. But, one day, we discovered retailers really didn't want to deal with us. They want to deal with wholesalers. Why not? Well, there's about 5,000 different items in even a small drugstore, and they don't want to be sending out 5,000-- taking in 5,000 invoices and sending out 5,000 checks. So the wholesaler consolidates all that, the truck comes, brings them a bin, sends them one bill.

Now if you think getting into a retailer is difficult, try the wholesaler. So we said, well, if we could do this, oh my goodness, we'd just need wheelbarrows to carry out all the money. How do we do it? We said, well, what do the wholesalers care about? The wholesalers want to know that there's an order already there, this is going to be painless. They're fundamentally lazy, make it easy for them. We said, OK, what can we do?

We looked about and realized there was a trade show coming up in New Orleans. We hadn't planned to go, but we said we ought to go. And let's find the 25 drugstores, I think it was Walgreen's, that are surrounding the area. And let's tell them that we're going to be at the show, we're going to be meeting with the educators, and we're going to be pimping, excuse me, selling our product, and that they should stock it. And, in fact, they should pre-order it. Which we did.

They took the orders, or, pardon me, they gave us their orders. And then we called the wholesaler that Walgreen's used and said, you don't know me, but I've sold a bunch of this product and I've built in a margin for you. You don't have to do anything. I'm going to take their order, I'm going to ship their product, I'm going to send you the money that you would have earned if you've done this, even though you haven't earned it, and you haven't done anything. What I want is for you to put us in your system. Just key us in the system. So if they reorder, they can call you. And I've built a business for you. Tell me that again.

But I want to be able to say to the Walgreens when they said, jeez we've sold all that stuff, we could say, great call your wholesaler. He's got it. Of course, he didn't, but he was in the system. Wholesaler called us, poof. Off it went.

One last example, we got a letter one day, sitting in the office, from a major retail pharmacy chain headquartered in Clearwater, Florida. We're drawing up our planogram for the coming

year. Who can tell us what a planogram is? Sir.

AUDIENCE: Layout of the store. [INAUDIBLE]

BOB JONES: That's exactly right. When you walk in, and you see all these products in different places, they've got that laid out like a blueprint. And many places, in fact, have a room somewhere near their corporate headquarters with shelves. And they put stuff on it, and they step back, look at it, and they photograph it. There's a lot of analysis. We're putting together our planogram for the coming year. If you'd like to be a part of it, you have to come to Clearwater, Florida, for a 15-minute meeting.

We didn't solicit this letter, it just, sort of, washed in. They, evidently, had heard about us. So I said, who runs this meeting? Well, it's a guy named Jeff. I called a few people I knew in the industry and said, how is Jeff rewarded for this? And they said, Jeff spends a whole week having one 15-minute conversation after another, all day long, five straight days. Oh my god, this sounds like something out of Dante's Inferno or something. This is terrible. But he's rewarded by the amount of slotting fees but he can extort from these eager vendors. I said, well, we don't have any money, but let's do it anyway.

So we went down there, and we're sitting in this huge lobby. And there are all these people with these poster boards, that look like in end caps and briefcases that open out to be these fabulous displays. And they're all like, god, can I walk your dog? Can I pick up your dry cleaning? Please put me on your shelves.

There were two of us there, and we were empty handed other than one little portfolio. We came in and we said, Jeff, this isn't going to be like your other 15-minute meetings this week, because we're a start up, we don't have any money, we're not going to give you a nickel. But we propose to spend five minutes telling you who we are, five minutes telling you what our product is, and five minutes telling you why you want us on your shelves anyway.

And he sort of kicked back in his chair and he said, well, it's your fifteen minutes, sport, whatever you want to do. So we've spent the first ten minutes saying, we're so fabulous, as you would expect. And the last five minutes, we said, Jeff, this printout is of the people with diabetes that have contacted us in the states where you have stores. There's 10,000 of them. All of us are asking us the same question, where can I go to buy your product? How would you like us to answer their question?

He sat there, and he looked at us for almost a minute. Which is like, hold your breath for a minute sometime, it's agonizing. And then he started grinning, and he said, OK, you're in. So we said, well, we want to stage this. We'll go in where we built the demand, I hate returns, and et cetera. But nary a word about slotting fees.

I bet you can guess the next thing that's going to pop up. Why no? What gave us that negotiating power? We had--

AUDIENCE: Customers.

BOB JONES: Thank you. It wasn't for being smart, or charming, or anything else. It was just good, old, hard work. But we came in there and essentially said, you're not generating the demand, we are. So we're not paying you for it, we're bringing you business.

So, impressive growth in sales, real high reorder rate, a lot of good publicity. Ended up selling the business to a billion-dollar pharmaceutical firm. Everybody was happy.

So, I was 10 years older at the end of two years, but I learned a lot. So tell me, what should I have learned from this? What might you have learned, given that many of you raised your hands when you said you were in the process of doing all this stuff? What should I have learned? What should you have learned that will help facilitate your progress with your business and my current venture? So let's have some hands. Tell me what I should have learned from this, and which, maybe, can have gleaned. What mistakes should I avoid going forward? What things should I do that were right? Help me out. In the back, yes.

AUDIENCE: [INAUDIBLE]

BOB JONES: Did everybody hear that? OK, let me paraphrase. With the first one, the disaster, I did focus on some of the stakeholders, but not the key ones, not the customers who are actually going to buy it. It's important to know, and I think I asked this question of one of you, who's going to write the check. Who's actually going to put their money on the table for this? And then who influences them? So that's certainly one of the more painful, but crucial, lessons. Anything else? That's fundamentally it, by the way, but if you've got nothing else, listen to that. Yes, sir.

AUDIENCE: [INAUDIBLE]

BOB JONES: Well, we certainly tried. This gentleman said we made it almost impossible for everyone we contacted to say no. How did we do that? Go ahead, sir.

AUDIENCE: You built up demand.

BOB JONES: That was part of it, but each time I called somebody that didn't know me, what homework did I do first?

AUDIENCE: [INAUDIBLE]

BOB JONES: Pardon me?

AUDIENCE: [INAUDIBLE]

BOB JONES: Finding out what motivates them. What do they care about? People think of selling as this, sort of, tainted activity, and it can be. But a hugely important component of it is just finding out what people want.

OK, I think you need to know what they're really buying. And I think you have to have some positioning. I think if you have a product that's for everyone, I'm sorry to tell you this, but it's my opinion that it's not actually for anyone, you need some focus. And I am also sorry to tell you, nobody actually needs your product. They might need the benefits. I actually don't need these glasses, what I need is to see better. So I hired, in the consumer sense of the term, I hired glasses. Some of you hired contact lenses. Some of you I'm willing to bet, hired the surgeon to do the little laser procedure. But all of us had the same fundamental need, we wanted to see better, we just took different routes to get there.

So sell the benefits first. And I'm a huge believer in market segmentation. I don't think everybody on the market is equal, and I think there's a lot of them who aren't going to be your customer, and I like to segment them by motivation to buy what I have.

I think there's a small group at the top feeling the pain right now. Underneath that, I don't know, let's say I have something that reduces the likelihood of heart attacks. So if you had a heart attack yesterday, and you're still alive, you could be a good customer for me. If you're not alive, I'm sorry, we won't do any business together.

His immediate family, they're in the second tier. They're worried. Sheesh, maybe we should pay attention to this. Down below that, people who are kind of vigilant. And then there's a huge bunch of people that's just a graveyard for you. Don't go there. Start at the top. Couple reasons, if you can't build a business there, time for your next idea. Think of yourself as a jockey. Not as a horse. If you start at the top and you fail, you might be a very good jockey you

just picked the wrong horse. Pick another horse.

Also, by the way, if you're thinking one day you might sell your venture, you can go to big company X, Johnson & Johnson, and say, guys I spent \$1.98 and penetrated that block at the top. You have a million dollars, you can take it further down, you can do the math, let's talk about the discounted value, future earnings, and pull together a little purchase package. Right? If you can't succeed at the top, you don't have a story.

But if you want to change your buying habits it requires a lot of motivation. And I'm sorry if this sounds manipulative, it's just blunt. I think pain is very motivational. Fear, greed, vanity, these are-- I'm not trying to list the seven deadly sins here. But ask yourself, what would cause people to stop doing what they're doing now and buy what you have. Are they dissatisfied with their current cancer care? Are they dissatisfied with something that you've got? What's going to motivate them to change their buying habits?

And, I gotta tell you, virtue is a tough sell. Buy my vitamins because 20 years from now the antioxidants will have caused you to have fewer mutations at the end of your chromosomes.

[WHISTLES]

I don't think so. So, with that as a context, what was I really selling with the one that failed? I was selling virtue. Take this stuff and your bio markers will improve.

What was I really selling with NiteBite By the way, answer that question for me. What was I really selling with NiteBite? Sir?

AUDIENCE: Peace of mind.

BOB JONES: Peace of mind. That's exactly right. In fact, once we figured that out, all the lights went on and the ad copy wrote itself. It was corny, one bite and the rest is easy. But we got it, that's exactly what we were selling.

So with no disrespect whatsoever, you have a question?

AUDIENCE: Going back to dealing with the wholesalers, how do you know that the slotting fees wasn't a big part of their revenue and not having them would be a no-go?

BOB JONES: Well I knew, in fact, that slotting fees were a big part of the revenue, and not having them,

normally, would make for a no-go. But what I produced for them was a pretty, nearly guaranteed income stream which exceeded the value of the slotting fees. I also introduced the topic of competition. I said, our customers have mentioned you as their favorite pharmacy, or our customers, the pharmacists, have mentioned that the wholesaler they most like to do business with is you. They have, of course, other wholesalers. They don't concentrate all of their eggs in one basket. I'm hopeful that we can do business, because otherwise I will have to go to number two. So how would you like me to handle their need, can we work together?

Don't get me wrong, we did get told no from time to time. And, in fact, if you're going to be an entrepreneur, I hate to tell you this, you will kiss a few frogs out there. Nature of the beast, right?

OK as I started to say, some of you are taking MBA courses that are focused on marketing. I'm going to give you an entire year of business-school-level marketing in two bullet points. Find out what your customers want give it to them. End of lecture.

Now, there's all manner of sophisticated regression analyses, et cetera, et cetera, that can be employed to do this. But if you lose track of these two fundamental points, you've missed the point.

So, focus. And I hated the boss I had, that said this to me, because I could never get it out of my head, drove me nuts, it was so corny. He'd say, Jones, there is no hocus-pocus that takes the place of focus. I'd think, you're killing me. But it's true.

So a different way of looking at this, it's not sales, it's detective work. If you are to succeed, do some detective work. Find your customer rather than promote your product, because your customers hire these things to do a specific job. Design your product to do the job they want for a specific customer. Go find them, and if you've done this right, the selling will be easy.

How do you do it? Talk with them. Cold calls, oh god. Literally, phone calls. Emails are helpful, but they're not adequate. Talk to them. Surveys are helpful, they are not adequate. Talk to them.

Some years ago, I wanted to do a deal with a group in Finland that had invented a margarine that lowered cholesterol. And I was intrigued. Johnson & Johnson offered them a huge sack full of money, our startup couldn't compete, we lost.

But I watched what J&J did, and I went into a number of supermarkets. It actually didn't take

long. I stood off to the side near where people had the margarine, and I would watch customers come in. The stuff that J&J had was about eight times as expensive as traditional margarine. Margarine shoppers would come in, and they'd look and say, \$1.19, \$1.39, \$8, \$1.4-- \$1.4-- I'll take the \$1.39.

So I would stop these people and say, excuse me, I was thinking of buying this \$8 stuff, and I noticed you didn't. How come you didn't? Oh man, I got all manner of other ways to take care of my cholesterol, and besides I don't feel bad. So talk to them. Know them. How do they view their problem? And think about your service and ask yourself, how are they solving the problem now. More importantly, what are they spending their money on now to solve this problem?

And there's a great quote attributed to Henry Ford. We said, Henry, do you ever ask your customers what they want? And Henry said, oh hell, if I'd asked them what they wanted they'd have said faster horses. So understanding what's behind that was part of Henry's genius. You do have competition.

OK, my Regain customers needed my product. They didn't want it, I couldn't sell it. So what matters is finding people who want it and figuring out how to communicate the benefits in just 30 seconds. And this is harder than you think, because if you don't really understand the benefits good luck trying to put it into collateral material, put it on your website, any of that stuff. And, of course, as Steve probably told you yesterday, you are unlikely to raise money. Customers buy benefits.

So, some of the questions, what's broken we fix? Who cares? Do they have any money? As a working musician I know that it's just futile try to make something for that market. Guitar players are all starving. How do you find them? How are they solving it? Why is what we have better?

I'm going to zap through a couple of these. I want to spend a second on this, though, is this all right? All right, something that we're doing with our little outfit, we said-- we're not the only ones doing this, mind you, but we are applying this. Start with the ideas, identify some unmet needs, et cetera, go interview people who might want it, and then make a bare bones version of the product.

We're making a 2.5 ounce beverage that helps you sleep at night. And we made a little

prototype, and it looks bad, it tastes bad, and you can't get the cap off. Arguably, this is not a good profile for a retail product. But we had one primary concern, does it work? We give it to 30 people and nobody goes to sleep, well then we stop right there. Silly to have spent any time making it look good.

So go out there and see if you can identify customers for launch. And, in fact, the first group of customers that we thought would be suitable for our business turned out to be wrong. I had a really bad five or six weeks where I got told no, all day, every day, for five or six straight weeks. Finally figured out, they don't want it. They might need it, but, time to iterate.

Once you get it right, then you can get about the business of doing your branding and packaging more formally. And then you can get about the business of growing the company. And, by the way, you might be able to raise a little money at a couple of those points. A little money to build your prototype, and then, once you figure out what you're doing, a little money to actually take something to the marketplace, because you have reduced the risk.

But that stage of the game is hugely useful. And I submit that that's what Aleem and his team have done already. They've made a minimum viable product, they're circulating a pancake mix, and they're getting valuable customer feedback. Aleem, your recipe calls for sparkling water. I don't keep sparkling water at home. How can I make pancakes without sparkling water? Oh, well, useful, right?

OK, so we're going to skip what I'm doing now. Though, of course, it's fascinating. We're out of time.

So, I have one set of final questions. Where do customers go for help? How are you going to reach them? Paint a picture of who's going to write you that first check. What evidence do you have that they will pay for your product? This was crucial to me for the gentleman talking about calling on IBM and calling on people who would want his augmentation of Google. What evidence do you have that somebody's going to pay for it? How much?

And then, it calls for someone who's a kind of a pervert to actually be responsible for sales, although some of us like it. Who's going to do it?

I don't think we have time for anymore of your questions, with regret, so let me summarize. The only non-negotiable requirement for successful business is your customers. And if you're going to succeed, you have to have something that's unique and important for someone. You

gave us a great example of pivoting that from the head of IBM to college students. It's got to be important to someone. So figure out who can't live without it, go find them and tell them about it, and take their money. Thank you very much.

[APPLAUSE]