Stanford eCorner

## Acting on Customer Discovery

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Customer feedback simply cannot be outsourced, according to serial entrepreneur Steve Blank. Here he shares an anecdote demonstrating the importance of founders speaking directly to customers. Blank recalls how entrepreneur Alan Michaels was forced to listen to customer needs and altered his product accordingly. These changes turned single-digit sales into the thousands, and resulted in an eventual $400 million company sale.
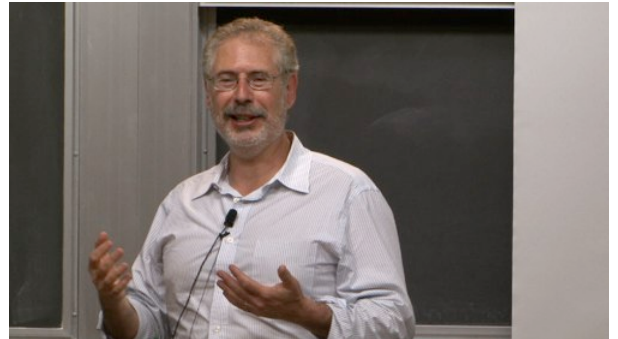
Transcript

When I first started at Convergent Technologies, the founder, Alan Michaels, had left Intel and he believed he was going to be making a single board computer. Computer that fit on one circuit board back in the early 1980's was a radical notion. And what Alan did was he went around to computer companies and said, "Look at what I got. How many would you like?" And they all kind of knew Alan from his work in Intel and said, "Wow! That's great! We'll take three for our R&Dlab." And Alan went, "No, no, no. I'd like you to take 3,000." The first company he went to said, "Alan, we're looking at a new type of computer but it doesn't even have a case. It doesn't have an operating system. It doesn't have any applications. It's a nice building block but maybe we'll take three and maybe we'll license the design from you." So Alan went to another company, this time NCR. And he gave them the same pitch and they said, "Alan, we'll take five!" He said, "5,000?" "No, we'll take five." Gave him the same story. "It doesn't have a box" and whatever.

And finally, Alan went to the third company, a company called Burrows at the time. And they said, "Alan, we'd take 10." He said, "Oh, oh, oh. You mean you'd take 10 boards? Absolutely, but would you like to see my box?" And they said, "Well, you didn't mention a box when you..." "Oh! Let me draw the specs of the box. It has an enclosure." And they said, "Oh, great! Does it have an operating system?" "Absolutely! It has an operating system." "What else does it have?" "Well, what else do you need?" "Oh, does it have a word processor?" "It has a word processor!" "What else, what were you thinking about? Oh, it has one of those!" Right there in discovery Alan finally realized that what he was hearing was that what he had was good enough to get three but was missing a couple of zeros. Now of course he had to go back to the rest of his company, which had all of seven people and said, "Good news! I just got an order for 10,000 computers from Burrows. Bad news is we need an operating system and a set of applications." And his co-founder, Bob Garrow, looked at him like he had been - somebody hit this guy with a brick because he was clearly... He said, "Alan," you know this was like 1987, "you just don't like off the shelf get an operating system and a set of applications." And so Alan, being a great entrepreneur said, "Well, where do you get them?" And Bob said, "Silicon Valley, I don't know. Xerox PARC, what are you going to do, hire Xerox PARC?" He hired the head of the Advance System Division of Xerox PARC who came with an operating system and the guys who wrote the Bravo word processor, became the Convergent Machine. He went from a company that potentially would have sold 25 boards in the first year to one that actually sold its company four years later to Burrows for $400 million. Now that's an interesting story about discovery was that Alan was good at listening.

But what's even more interesting is what happened at his next company called Ardent. Alan was now a successful CEO. In the early 80's Alan Michaels was well known in Silicon Valley, bad boy of Silicon Valley. Kleiner Perkins, everybody wanted to fund his next company, anything he wanted to do. Alan decided he's going to build a graphics super computer. A cross between a Cray and a Silicon Graphics which in hindsight turned out to be the - exactly if you were making a floor wax and

dessert topping in one. It's the null set, but we only found that out later. And this time, Alan Michaels was not in the field talking to customers. Where do you think he was? Any idea? Second company, successful CEO, where was he? In the office. Who was he talking to? His investors.

Who was the people in the field talking to customers? His VPs, particularly his VP of Marketing yours truly. And customers were saying, "Steve, this is the worst combination of product features we've ever seen! But if you've ripped off this piece and just gave us the server the price performance of this stuff is really - and if you change the vector unit to do this, it was great!" Oh, I went around. I went around to almost every national lab. I went around to the NSA; I went around to a bunch. A lot of excitement for something about 20% different from what we were building, not completely but different. So I went back to headquarters feeling really smart. I actually found out what customers want. What do you think happened when I went to Alan Michaels' office and told him, "Hey, guess what? Our baby's ugly. In fact, your baby's ugly." What do you think he said? "You're fired." In fact, I was fired three times that day. [Laughter] So important heuristic here, if you're going to do customer discovery at all, and by the way, he never listened.

Company went out of business painfully. One of the wonderfully enjoyable failure sagas at Silicon Valley. If I had two hours, I would tell you. But here's another heuristic, if you're going to go out and discover whether customers like your idea or not, this is not an outsourceable problem. The founders need to do this. Particularly the people capable of changing strategy need to be the ones hearing good news and bad. Why? Because it's like hiring some consultant agency. "Oh, what do they know?" Or worse, "Steve, you're just not explaining it well enough." Anybody here that one? "We just need to explain it harder." Getting feedback from customers is the most valuable thing you will do as entrepreneurs. It is not outsourceable. And if you are a technical founder, don't believe that "Oh, I'll hire a professional salesperson and they'll sell it for me" without you ever, ever leaving the building.