

URL: <https://ecorner.stanford.edu/videos/getting-to-product-market-fit-entire-talk/>

Alexandra Zatarain is the co-founder and VP of brand and marketing of Eight Sleep, the world's first sleep fitness company. A marketer and brand-builder, Zatarain has built the Eight Sleep brand and scaled the company's revenue from \$0 to current state. Eight Sleep was named one of Fast Company's Most Innovative Companies of 2018 and was recognized two years in a row as a TIME Best Invention of the Year. In this conversation with Stanford adjunct lecturer Ravi Belani, Zatarain digs deep into the process of finding product-market fit, using examples from Eight Sleep's struggles and successes.

## Transcript

(soft music) - Welcome to the Entrepreneurial Thought Leaders. 00:00:19,500 The Stanford Seminar for Aspiring Entrepreneurs. ETL as you well know, is presented by STVP, the Stanford Entrepreneurship Engineering, the Stanford Engineering Entrepreneurship Center, and BASES, the Business Association of Stanford Entrepreneurial Students. I am Ravi Belani, a lecturer in the Management Science and Engineering department at Stanford, and also the director of Alchemist and Accelerator for Enterprise Startups. And today I have the pleasure of welcoming Alexandra Zatarain to ETL. Alexandra is the co-founder and vice president of Brand and Marketing of Eight Sleep, the world's first sleep fitness company, which she has started with two other co-founders, one of whom is actually her husband, Mateo. As a marketer and brand builder, Alexandra has built the Eight Sleep brand and scaled the company's revenue from zero, from nothing, to its current state, which is in the nine figures of revenue. She has done this by redefining a once dormant category, changing the narrative around sleep through the creation of the sleep fitness movement. Eight Sleep was named one of Fast Company's most innovative companies of 2018 and was recognized two years in a row as a time best invention of the year. Eight Sleep has also raised \$65 million in funding from leading investors, including Founders Fund, Khosla Ventures, YC, Craft Ventures, and Eight VC.

And in 2017, Alexandra was named by Forbes to the 30 under 30 list in consumer technology. And in 2020 she was named by Inc Magazine as one of the top 100 female founders. Zatarain is also an angel investor in female founded companies and a scout for Cleo Capital. She was raised in Tijuana, Mexico, and now lives in Miami. So everybody, please join me in giving a strong warm welcome to Alexandra from afar. (people clapping) Alexandra, I'm gonna, so I dunno if you can hear it, but there's a whole class there live for you at Stanford. Lots of love emanating across from coast to coast to you in Miami. So gang, we're gonna do sort of a special ETL. We're gonna experiment with a deep dive. The agenda for today is we're gonna get a quick opening introduction about Eight Sleep.

Then we're gonna sort of dive deep and we're really gonna go deep into understanding the nuances around product market

fit. So we're gonna front load the conversation, really diving in deep on that. And that's gonna be the intention behind the scope of today is to really understand the nuances of getting to and finding product market fit. And then everything that happens after that from a marketing and brand building perspective. Time permitting, we're then gonna go into more of the general questions about inflection moments in Alexandra's journey and then we're gonna open it up for questions from you. So if there are more general questions that you're curious about, please note them and we're gonna open it up for Q & A in about 25 minutes. So just save those questions. And we are gonna, Alexandra's gonna be able to see you, we have cameras, we're all gonna be able to zoom in on you so you can have a direct dialogue with Alexandra. So Alexandra, welcome to Stanford. Virtually welcome to ETL.

I know Eight Sleep, I use Eight Sleep, I check my analytics every day. - Awesome. 00:03:33,930 - I'm a big fan, 00:03:35,520 but I don't know if the Stanford students who are in dorms. I don't know how many of them are familiar with Eight Sleep or not. I am by the way, getting the context for this is, that Alexandra has done something that for me is a herculean effort. She's going after a consumer space with a heart, with a company that has a hardware element and building a platform. And so she's taken on many things that many people say are the kisses of death in the startup journey and yet has built something that is incredibly unique and there aren't, in my opinion, they've gone into a space where they've created real substantive value. So we, I wanna unpack how they did that, but before we go into the product market fit deep dive, Alexandra, can you share for people that aren't familiar about what Eight Sleep's product is, and the company's vision, if that's different than the product. - Yes, of course. 00:04:27,330 I'm really happy to be here and talk more about everything we've been through at Eight Sleep and let's start with that overview.

So we are a health and wellness company focused on sleep fitness. What we do is we build technology products to help people sleep better because we believe that if you sleep better, you're going to live better, you're going to perform better in your life, you're going to be happier, you're going to live longer. We've been doing this for 10 years, so we, I'm nine years and 11 months into this journey, so very soon hitting that 10 year mark. And we've been doing this way before anything around biohacking and anything around sleep was a thing. No one was talking about sleep 10 years ago. There was no Apple watch in the market. There was no Oura or Whoop. There were no companies looking at sleep as anything relevant for our health. So it's been exciting to see what these last 10 years have become and how we've been able to build a conversation around the importance of this aspect of health. As you mentioned in the introduction, the company is a VC backed company.

We build technology across multiple dimensions. So there's the physical hardware of the product that I'll describe shortly. There is the backend and the software. There is the data, the analytics, the algorithms and the machine learning to understand how you sleep based on sensors. Then there is all the part around a mobile application, there is the e-commerce, there's operations. So it's really, really complex and we've managed to survive and thrive now after a very, very laborious journey that has definitely been a roller coaster. What we sell and what we are best known for is the pod. So many of you may have heard about the pod and the pod is a product that you install onto any mattress and it helps you sleep better through temperature regulation. And our most recent product that we launched two weeks ago, also through the management of your sleep position and mitigation of snoring. So what we're essentially doing is we are putting sensors on your bed through this cover that you add to your bed and those sensors are telling the pod who you are as a sleeper, it builds a blueprint of you as a sleeper and what you need to sleep better in terms of temperature or sleep position.

And we take actions in real time to make sure that we give you that environment so that you sleep better. And now we have clinical evidence of that improvement in sleep. So we have multiple studies we've released, but we also have our first peer reviewed study that was published earlier this year that proves what we're doing through this technologies actually giving people more sleep every night, higher levels of recovery so their HRVs are higher, more deep sleep, more REM sleep, etcetera. So we're in that journey towards becoming not just a company that helps you sleep better, but a company that's turning your bed into a preventative health device thanks to all of this information that we're seeing about you your body every single night. - Terrific, okay, that was fantastic. 00:07:16,140 So gang, I hope you picked up on a couple interesting tidbits there is that this is a multifaceted product and it's a multifaceted business model. There's both, the hardware component, which is this mattress, but it also has therapeutic impact. It also has service elements after you buy the the pod, you also are going to, there's analytics that also affect and shape behavior. And so what we wanna dive into is how do you actually construct a company? And it's very rare for us to have somebody who's gotten the company to this state and was there at the very beginning, free revenue when there's absolutely \$0. So we're going to dive deep now into getting to product market fit, especially with something as complex that has probably evolved in a way that you wouldn't have anticipated or maybe you did, upfront.

and before I dive into the nuances of product market fit, just a basic question, is this a company that you had envisioned where you're at today when you started nine and a half years ago, where the vision is sort of a high fidelity match to the present moment? Or is it a company that co-evolved as you discovered it, as you went through the challenges of product market fit and discovery in scaling? - Yeah, it's a great question because it's a bit of both. 00:08:28,770 The vision for what we want to solve through technology has stayed the same. That's very much the core to our DNA. At Eight Sleep, what we believe makes us unique in the entire landscape of anyone building anything in sleep is that we believe technology can be used to help people sleep better. There's a lot of conversations out there, you know, just tech is bad for you and you shouldn't bring it into the bedroom and whatnot. We've always been very bullish about what it could do for improving sleep and to what we believed since the beginning is that it can do it through two main things. One is understanding each individual. We believe

that sleep is very personal and the science would prove that, right, everyone is different and every single night of your own sleep is different and requires different things. And so technology can help us understand that. And second to that is that we can also take actions.

So we go beyond what a wearable does and we can actually create these interventions in your sleep through temperature or now through your sleep position. And we'll keep tackling all the other things that we can do around your sleep to help you sleep better. So that has stayed true. However, the business model, you were talking about this right now, we have a bit of a different business model than we had at the beginning. We have a different type of product offering, we have different pricing. So that has changed and that is what I love talking about the most. And that's very much connected to product market fit, because that was my own journey when I started Eight Sleep and I knew nothing about what I know today, is that actually the more of like making this a business beyond just a product has really evolved from day one to where we are today. - Okay, so again, Alexandra's really building two things. 00:10:02,066 She's building a product and she's also building a company that can become sustainable. And so we're gonna unpack the parts on product market fit, which is generally the product, but it's also thinking about that fit with the market and then that also can apply to the business model.

So let's go, let's dive into that. Before we go into the mechanics of what you did to get to product market fit, can you describe when you know you found product market fit? - Yes. 00:10:26,910 I always say that you feel it, so it's not something you just see in the data, but you feel this shift. At Eight Sleep, we've been through what we described as these sort of like two very differentiated phases. There's like the first five years and the latter five years of the company and the marked difference is when we found, when you really found product market fit. And it doesn't mean that we didn't make revenue pre product market fit. It just feels very different once you have it. And what it feels like is that instead of you pushing this boulder up this mountain, you're actually being pulled by this force. That's what you feel that difference, you suddenly feel like you can't keep up. There's this clear alignment of the stars.

And so for us in those first five years where I would say we did not have that product market fit, everything was really difficult. It felt like every month we had to figure out a new way to make a dollar, right? And maybe you had a spike when someone wrote a press piece or when you know, you posted on Product Hunt and you made this money and you think you have product market fit and then suddenly it just like goes away. So that's, you know, it's not growing, it's not compounding. And instead, the last five years have looked very different. So I would say that's the main thing. You will feel it. Where you're pushing it or is it pulling you as a force. - And when was the first moment. 00:11:44,190 So again, just understand it's five years and that's a common theme that we've seen. We had Databricks and it was six years for Databricks.

Can you talk, do you remember the moment when that inflection occurred when you actually knew that you were getting pulled? - Yeah, so this is where product comes in. 00:11:58,710 One thing that we've learned at Eight Sleep, obviously being a hardware company, our product release cycles are a little bit different than what you've seen on software. Like we're pretty good at it actually as a startup because we release a new hardware product every 12 to 18 months, which is pretty quick cycles. And what happened is that when we launched the very first time a product at Eight Sleep, which was beginning of 2015, we launched a crowdfunding campaign that you all can probably still find if you go in Indiegogo. And we were pretty successful. This was a very, very early version of a product that was different from what you see today, but that product was pretty successful. It sold like 1.4 million or something like that, million dollars on Indiegogo. So it was like, oh this big success we think like now we've made it, this is gonna be huge. And one of the things that we learned when we launched that product is that when we asked those people who backed us in that crowdfunding campaign, what they wanted to see next from us, what were the features that they wanted from the product to do to improve their sleep, there were two main requests that they made that ranked could, like they outranked any other of the hundreds that were put into the forum. They wanted to cool down their beds and they wanted a vibration alarm, so they didn't disturb their partner when they woke up.

And that product we had just launched didn't do either of those. So the consumer was sending us a signal that there were these two problems, particularly cooling down their beds, that no other product in the market was solving. What happened is it took us from 2015 all the way to 2019 to actually release that product that they told us in 2015 that they wanted. And so that was the big inflection point. When we released what you all know now as the pod, the very first version of the pod in 2019, the trajectory of the company completely changed. So it took a lot of refinement on all the other aspects of product market fit. The audience and the message, we also worked a lot on that, but it also took the product. Bringing to market something that we knew people wanted, was critical to that inflection point. - You had the discovery of the need, 00:14:06,270 but then it took four years to actually validate the offering to make sure that it was what they. - Well it took four years just 'cause it 00:14:14,040 was very expensive to build it.

- No, no, I don't. 00:14:17,160 - Startup comes in. 00:14:19,680 - No, and I'm not saying that with judgment. 00:14:21,630 Yeah, I'm not saying that with judgment and everything is a countervailing because as challenging as it is to build, that's also the reason why you guys now are in this, this vaulted position, of I think having unique differentiation. Okay, let's dive in. Can we talk about what are the foundational elements of finding product market fit? - Yeah, I would break it down pretty simply into, 00:14:44,550 you've gotta figure out if you're meeting a market demand, right? That's ultimately what PMF is telling you. Like is this something the market wants? But the way I like think about it is first what are you building? Who is it for? How much are people willing to pay for it? And then the last part of it is like, then how are you connecting all of these things? How are you reaching that person with the message to sell them that product? And so going back is, what are you building,

who is it for? How much are they willing to pay for it? And then how do you, how do you connect with these individuals? How do you reach them? - Okay. 00:15:22,910 And then can we talk about then how do you, so when you're initially starting, how do you do the, is it research, I dunno if you'd call it research for product market fit, because it does feel like you can always learn more. So, and time is your most valuable asset as a founder. So how do you calibrate how much research you should do? When do you know it's enough, when you have enough validation to move forward or it's not significant enough to be salient? Any color you can add on that? - Yes, I agree with you.

00:15:51,330 You never stopped doing research. Right before I jumped on this call, I was reviewing another survey that's going out to our beta group on new products and new features. So we do a lot of research at Eight Sleep on everything. Now the key on the research, which I'm a huge fan of, I enjoy a lot doing it, is that the research is not necessarily going to give you the answers. It helps you build that intuition, it helps inform your decisions, it helps give you some context on what's going through your potential customer's minds. But I have never found that research is necessarily going to tell you exactly what to do and how to do it. It's directional. So that is what you should think of. When you are starting off, and I think this is the part where we made a lot of mistakes at Eight Sleep in the first five years. And a big reason why beyond that we didn't have a product that cooled down, beyond why I think it was so difficult to find product market fit in those first five years, is that we were trying to build a solution for everybody.

In our minds, and this goes back to, you know, what are you building, but then who is it for? We knew what we were building, but then the who is it for we had completely wrong. And that's the main mistake that I see most founders make over and over, is that we, in our case, we thought we have a product for sleep, everyone sleeps, so we should go out and create five different landing pages and all these different types of ads and we should make sure that we speak to the sleep deprived moms, but to the executives, but also to the athletes. And so we were trying to just catch everybody and anybody and convince anyone who slept to buy our product. And what happens is that you get these false signals of product market fit because, of course, some of these people in all these different communities are going to be compelled to buy your product. And so then you start thinking, I got it, this is it. All of these people want my product. But that's not to actually compound into true market fit. You gotta build that pool, you gotta build the pool from the community that says we want this, give it to us. And you can't keep up. And I think that is mistake number one.

And where research can help you, I think is mostly to get into the psyche of all of these potential consumer groups. You're not, research is not gonna tell you this is the one, you gotta use it to develop that intuition and understand them at a deeper level. It's almost like you're doing psychological research instead of just as market research. We sizing the opportunity. You wanna understand truly why would these individuals want your product? And then the third piece comes in PMF, which is how much are they willing to pay for it? You're also looking for a group of people who not only tell you they want it, but who are willing to pay you what you need to be paid for, which is something also a lot of entrepreneurs forget about. Otherwise you're not gonna be able to get your business off off the ground. - And so that is that the salient filter for determining 00:18:52,775 who your target audience is? Is it who will pay? Steve Blank is a fan of having this hierarchy of discerning, you know, target audiences and for him it is somebody who not, you know, it basically raises based on the ability to pay and then it's even somebody who's already thought about the product in advance and can give you the requirements. If the data from the research. So I guess there's two questions. First of all, on the research side, is there a type of research that is the best to help inform which target audience to go after? Is it surveys, is it observation studies? It sounds like it might be psychographic investigations.

Is there, or is all, is it all equally good without one being saliently the best? I guess that's question number one. And then question number two is, can we dive into then how do you identify what is this? What's the salient filter to determine who is the target audience? - Yep. 00:19:47,670 So on your first question, I'm a huge fan of doing calls with people or meet face-to-face. So really like you're having a conversation individually, not focus groups with people at the beginning who you believe could be within your consumer segment, right? And then from those calls, all you're doing is you need to go into it with a lot of curiosity. So in our case, what we did is, when we started the company, we, Mateo and I moved to San Francisco where our other co-founder Max was based. And we had this apartment in Soma, and we would basically invite people that was our office, and we would invite people, anyone that we knew to just come in and talk about their sleep. We just wanted to learn what were the problems that people had in their sleep, what were their struggling with? And we would just listen and it's like therapy, right? You're just like asking all these questions and all these why's and you're trying to get to the why. Why do you do what you do today? Why do you use these products? What have you bought in your sleep? What mattress do you have? What lamp do you have in your nightstand? Anything and everything. So you're trying to build this profile in your mind because you don't wanna make decisions about your business just based on who you are and your view of the world, right? And from those conversations, there were a lot of interesting themes that started coming up. Temperatures started surfacing as a big thing.

Couples fighting around temperatures started surfacing as a huge thing. So we're like, oh this is interesting. So we may have already had an idea of what we wanted to build in the product, but by listening to people talk about their problems, we started to shape the narrative for how we could pitch this product to the consumers. And we started to understand that there were certain types of people, maybe in certain ages or with certain lifestyles or with certain incomes that were more interested in our product or were willing to pay for our product. And so what happens is, I always describe it where it's like, it's not perfect science. There's a bit of that art and that intuition where you start triangulating all of this information. So you

gotta speak to good number of people, especially initially, right? 20, 50, 100. Like just spend time in those potential communities, start seeing where the signals take you. And maybe as you find that some communities may be more prone to buy your product, spend more time with them, start really focusing on them and going deeper and deeper and deeper. And then spend the time constructing what this profile of these individuals is.

And from there, what I like to do is then I take it into something a bit more quantitative. And so initially for a startup, especially in a consumer space, and you start building things like, well why don't we put a little bit of money on ads and run some ads and then go to landing pages and see what happens, and do people give us their email and is there some interest or at the time way back, you know, you launch on crowdfunding and you see what happens. So you start trying to get signals at scale, because obviously those one-to-one conversations are only gonna take you so far. - And so you start with this broad base 00:22:37,290 of conversations to identify underlying needs or drivers without predetermining what your market segment's going to be. And then you're coalescing patterns and matching those needs to, is it a user profile or a persona that maps to a, like a price point and a messaging strategy? Is that what's happening? - Yes. 00:23:00,699 Now your price point and your messaging strategy are, I don't believe, and I've never seen this happen at Eight Sleep, is something that you're going to get a positive signal from research. You have to put it out there. It's the only way to really know if you got it right. So you can get some indications from our willingness to pay in some bands, right? Or some messages resonating more than others. But the best signal will be when you actually put something out in the wild and you see whether people are actually paying for it and which messages are resonating the best.

- Okay, so the research isn't gonna give you validation, 00:23:36,480 it's just gonna give you hypothesis generation. And then you're validating it half. So walk us through that. How do you validate the messaging? How do you validate the price point? How do you validate the other key drivers that you think the founders need to validate? - Yeah, so at that point is when you just need 00:23:52,470 to put something out there, right? You can't work on it by yourself for too long. And so the best signals come from launching something, which is the scariest part. I'm sure a lot of founders stop right before then or they take too long to ship. But you have to figure out a way to put something in the wild where you are actually charging because we also a lot of times make the mistake of underpricing or giving things up for free and that gives you only false signals, right? So determine your price, put it out there and see what happens. So what we did at Eight Sleep, and I think it's pretty common for companies working in the consumer space, is build a website, build a landing page, start taking pre-orders or orders depending if you have your product ready to go. And you gotta read the signals that you get at that point. Where are these people coming from? And we can talk in a second about how you find these individuals, but you know, where are they coming from to your website? Which referral sources are converting the best? Are there any commonalities between people who are purchasing in terms of their demographics or their behavior on site? And so just looking at all of that data is going to validate the potential messages or pricing strategies that are working the best.

But I always add, even now at Eight Sleep, add a component of research post purchase, which is pretty critical because I still believe in the power of that qualitative feedback, is is much more relevant to keep informing those hypothesis than just seeing the signals that may come through like analytics on your website. And so what I always suggest to do is if you put up a landing page and you're taking pre-orders or maybe you're just getting email signups, we're reaching out to those people with a follow-up email and just saying, hey, how, how did you hear about us? Or hey, why are you interested? You know, offering people a gift card in Amazon for \$10 and getting on the phone and asking some more questions because all that information will keep refining the profile that you've built of who your customer is, or your potential customer is. And so it's really, really valuable to still close the loop there. - And so, just so our aspiring founders can quantify this, 00:26:04,110 how many interviews? I know it's qualitative and it's not quantitative, so this might be a false question, but nevertheless, just to get the details, how many interviews do you think you had to do when you did that broad swath approach to get to your first hypothesis that actually worked? Was it a hundred people that you were interviewing or? - Oh yeah, probably at least a hundred. 00:26:23,490 - Okay. 00:26:27,510 And then what happened is we launched our crowdfunding campaign at that point and we sold like 6,000 units or something. So then we had a group of these 6,000 people that we continuously bombarded with surveys and hey, join a call, I'll give you a gift card or whatever just to expand the potential group of people that we could grab from for our research. - Oh, interesting. 00:26:49,815 So you did a hundred people, that got you basically like a 6,000 person focus group from the crowdfunding campaign and then even at that point you hadn't, at what point had you figured out the target audience that you needed to go after initially? - We did not figure out our real target 00:27:04,127 audience until five years in. That's what I would honestly say.

- Until five years in? 00:27:07,306 - Yeah, yeah. 00:27:08,724 Because if you think about it, that's when we become product market fit. So I don't think that anytime before that we really had nailed it, I think we were still in that face of experimentation and pivoting and trying to refine it and just nothing was fitting perfectly. - And I think this is actually 00:27:24,960 pattern matches with the great companies. They all take that long actually if you're doing something that's challenging and difficult, but I wanna just make this very sober and real. Is there anything that you learned that strikes you as something that if you knew it sooner, it would've condensed that five years down to a year, or two years? - Yes, absolutely. 00:27:46,470 It's my favorite mantra for brand building, which is you can't be all thanks to all people. - Okay, speak to us about that. 00:27:53,280 - Yeah. 00:27:56,190 It's, you gotta have the guts to actually go very, very, very narrow in your customer segment, which feels counterintuitive, right? A lot of times when founders are speaking to investors, you're trying to paint the picture of a really big market and all this TAM and so you're thinking big, but when you're actually going about acquiring your customers, you have to think very niche.

The riches are in the niches they say too, right? And I think that was a big mistake that cost us for a long time because what we kept trying to do, as I mentioned before, is everyone sleeps. So why don't we just speak to everyone and so let's create all these different messages because we understand everyone sleeps, but there's all these different profiles. So let's create all these different messages and all these different landing pages and all these different ads and let's spend money on all these different newsletters and let's work with all these different influencers, right? So you basically start diluting your effort. You're a startup, you're five people and you have a limited amount of money? So when you start spreading it across trying to reach all these different five or 10 different personas, you can imagine that the impact that you get is not gonna take you very far. Instead what happened for us in 2019 when we launched the pod is, prior to launching, we went through an exercise of completely repositioning the brand and really understanding who is our customer, how do we hone into just one segment? And then from there everything became easier. I don't wanna say that everything in the business is easier, but from a customer acquisition and understanding where we should deploy our money, who we should be speaking to, you know, even what press we wanna show up in, what stories do we wanna tell, just all of that aligned, because we knew exactly who we wanted to talk to. - And is that, you know, 00:29:38,550 I love that the riches is in the niches. When you're identifying that first niche, is there bias towards, you know, there's some one school of thought that says go to the extremes, the extreme users that really, really love the product. And then there's another school of thought that would say, go to the mainstream, the average user because that's how you scale. And I don't know if either of those are actually what you did, but do you have any reaction to those choices? Is that the right way to think about it? If not, is it something else? How do you identify what that initial, I know we've asked this already, but yeah, any more color on identifying what that initial segment is? - Yeah, so we didn't do either 00:30:11,310 and I can tell you all what we did, but I definitely would go for the extreme.

I think you wanna go for the people who would really love your product. People who are going to turn into the biggest advocates ever and for whom you're solving a problem that is so big that you can't live without your products now. I think that is definitely where you probably would find more success and you may feel like you're gonna tap out of that segment fast, but it's gonna take a while. And then once you do, you can move on. But at least you've built a foundation of a real community that is loyal and loves what you're doing. Now how we did it at Eight Sleep was a little bit different. We took an approach that is sort of, we call DNA based. Meaning we had been through five years that we're torture where like this is impossible. We can't keep trying to find a new customer segment and trying to refine our messaging and trying to change our brand every six months, right? So we looked inwards and we said, okay, who are we as founders and why are we building this company and what are the core beliefs that we have about sleep, technology and sleep, health, the long-term vision of the company. So putting it all out there, it was kind of like therapy.

And by describing that DNA and that soul of the company, is when we came about with that concept of sleep fitness. We said well we're actually a mission-driven company and we are building our own category, because the way that sleep is being talked about is not what we believe is correct or how we should be thinking or talking about sleep. So here's our point of view, which is what brand is, it's just what is your point of view? And with that point of view, then we went to the second phase which is who's our customer? And the decision of who we targeted was based on who do we believe this message will resonate with the best? That is, that was the thinking is, if this is who we are, this is what we're building, this is why we're building it, who's our community? So I always describe it the way we build the Eight Sleep brand is like a movement. So we think about it more like we're a movement. We believe that sleep is like fitness. We believe that sleep is something that you should be prioritizing, measuring, optimizing. That just like fitness, you can get better at. You're not a bad sleeper or a good sleeper. It's a journey. That technology can help you achieve sleep fitness, right? And so then we go out there as founders and Mateo who's my co-founder and our CEO is the leader of that movement, 'cause this is his story.

This is why we started the company and we're just trying to find people to join this movement. And that's how we identified that initial customer segment. And that's what changed everything for us. And so what we identified is that essentially who we needed to speak to were individuals who already believed just like us that sleep is actually important for their health and their wellbeing. We didn't have to convince them about that. There are other people in the world to whom we have to convince them that sleep's important. But we are gonna focus first on people who already know the importance of sleep. And second, they're already doing something about it. They are investing in wearables, they are investing in, you know, other products. They're spending in their sleep and their mattresses and their pillows and their linens and you know, they're trying to build good habits even if they may not be perfect.

So it was easier to evangelize to them. 'Cause again, we think about it as a movement. And then once we understood that and then we started mapping them more in terms of demographics and income, like all that other stuff came after. For us, the most important trait in who we're speaking to is actually this relationship with their sleep, is what we say. That is what brings our customers together. - It's the relationship with sleep. 00:34:00,554 - Yeah. 00:34:02,250 It's their belief that sleep is important and that they're already investing in it, they're already doing something about it. That is what brings all of our customers even today, five years after, together. And then there are other traits around, you know, their income that may be, you know, obviously you see some patterns, but the reality is the most important one is that relationship to sleep.

- And it's self-fulfilling. 00:34:25,800 It's actually the founders have to inject themselves in the process to actually identify that initial niche. It's not this passive customer interviewing prospect because you actually influence the outcome. Your passion is what actually creates the tribe to create the movement. So you guys are revolutionaries, effectively that's what you're doing. You guys are disrupting the status quo. This is so good and I know we're running out of time, so I want to give

ample time for the students to ask any questions. I sort of wanna end it on if you can, I've heard you describe that the startup journey is like chewing glass and it's continually like that. I don't know if that's true or not, but you guys are vaulted in this position of being one of these amazing companies. You raised \$65 million, all these things.

Can you describe anything that you want to delineate about what the reality of being a founder is like, versus the myth that you think people don't talk enough about? - Yeah, I think Elon's the one that got 00:35:26,640 that phrase first on, it's like chewing glass. Yes it is. It's really painful and it does not get easier. I think that that's something that we, Mateo and I who, he's my husband, right? So we're co-founders. We think about the company all the time and we say often is that it definitely does not get easier and I think that that's the one thing that a lot of us get wrong is that you think that something will happen at some point and things will get easier for you as a founder. They don't. That's why you have to be really passionate about what you're building and there has to be a bigger reason why you're going through all this pain than just money. There's easier ways to make money, right? And it's not gonna be someone you hire, it's not gonna be something that happens in the world or a new product you launch, nothing. It's just going to continue to be a hard journey and so you better get used to going through that hardship and having fun while you do it as well. - Terrific.

00:36:25,710 Thank you Alexandra for sharing. I wanna open it up. So again students, this is your time. Student Hi Alexandra. 00:36:32,190 I have a question on the release cycles. I think you mentioned that they were 12 to 18 months and at first I thought that was really long, but then I remembered it's a physical product and that's really fast. So I was wondering can you walk us through the stages of those 12 to 18 months? What's usually happening along the way? - Yes, it's a great question. 00:36:55,491 We just released something a couple of weeks ago, which is the Pod4 and Pod4 Ultra. It's the first time that we launched two products at the same time and what that looks like. So I think that one was around like 15 months and where we start is, what is the problem we're trying to solve? So as a mission-driven company, we measure our success and our ability to help people sleep better.

So then we think, okay, what is the next problem that we can solve for sleep? And sometimes that means that we just want to make our current product better because maybe there's something about our current product that is not hitting the market, for example. It's not quiet enough and it's really important for the product to be silent because noise disrupts your sleep. Okay, let's solve that, great. That's something we wanna tackle with the next product iteration between Pod3 and Pod4. Sometimes it's like, hey, what if we actually solved snoring, which was a new feature that we just released, right? And so we basically have these conversations at the executive level where we have the representation of head of R & D and head of hardware and software and myself and CEO and ops, right? And so like there's like basically every area of the business represented and we brainstorm about all these ideas. A lot of times comes from Mateo and I do think it's a big part of the role of the CEO of like being the person who's like spending their time thinking about that vision and the potential and all that. And then he like throws these ideas and then we're all like reacting and like figuring out what's doable and all that and each person brings their perspective, right? So it's important to say R & D says here's what's possible. Can we actually detect snoring with a certain level of accuracy with the sensors that we have, which are non wearables? Can we actually mitigate snoring with an adjustable base and how do we validate that? And me, I'm thinking well what is going to be an interesting story position to the market to make money off of these products? And that kicks off then the journey of what usually starts through hardware. So hardware takes the longest time. So we have our hardware team based in San Francisco and then we have our team in China that manages also all of our vendors and suppliers for manufacturing.

And so that's like sort of our larger hardware team that kicks off the work. Like they're the first ones to get to action because their timelines are really long and what happens is that they first build initial prototypes. So once the team has conceptualized an idea of like, here's what the potential solutions could be, right? They all, like all the engineers get together and say like here's how we could solve snoring and here's how we could make the product more silent and more comfortable and whatnot. They get to work and they start building prototypes and what actually takes long in this process is the part where you're building a prototype, testing it and then finding things to work on and then building the next one. And so that is one of the things that at Eight Sleep we've gotten really good at, compared to most companies is that we do a lot of those iterations really quickly and it's probably because we just maintain this approach as a startup of just, just keep iterating, just keep going. And we're very, very nimble and just like very agile in how we make those iterations where we're not looking for perfection in every one of those. We're looking to validate key points about the product and so you know, the normal development cycle of hardware, then you'll have the different milestones that are the big ones. Like you have, you know, your prototype that looks like it, your prototype that works like it, your prototype that both looks and works and then you have your prototype that's actually manufacturable. And so you go through those typical milestones and then at some point you also kick off, of course, all of the former development and then all of the part around software and then all the part around what the user will see in the interaction with the app. - Alexandra, thank you for that.

00:40:35,040 And and can I just ask a follow up question which is, that many VCs tell founders to stay away from hardware because of the distribution challenges, the lowered margins, the higher capital intensity. What's your view? Would you do a hardware company again if you could choose between a hardware or a pure software alternative? - I love hardware. 00:40:55,240 I love it because I think there's such a thrill from building something that people receive at home in a box and touch and put in their room and get to use every day. Like I think that's the biggest gift that this whole journey has given me, even because as a founder, you get to define so many aspects of this product, right? So if any of you has a Pod at home like that color and the design and whether you like it or not and that packaging, you can blame me, right? Like it's so amazing to

have that influence and so I really love it. Now do I wish the investor community was much more open to supporting it because it is definitely harder to raise money in hardware. There's fewer VCs and investors willing to back it because few of them understand it or have been through it. So that is the difficult part but I also think that you have to go into that journey with that understanding that it's gonna be harder. So figuring out your unit economics earlier is pretty key compared to a business, you know, in FinTech or now in AI where they're going to be throwing money more easily than you are. So that's always been a harder challenge for us. Even though we've raised a lot of money, it's definitely been much more difficult than if we were just a software company.

- Perfect, thank you. 00:42:15,633 Next question. - [Student] Thank you Alexandra. 00:42:20,460 I have a question. How do you see the future of your company? There are more and more mattress, sleep mattress company now emerging and it seems like you want to be on both sides, both the hardware and the software. So do you envision like a partnership with them, a collaboration or what are your thoughts on that? - So there's two sides to this answer. 00:42:50,520 The first collaborations, yes and no. When we were earlier on we explored them and we realized it's probably not the right path for us. Mainly because the way, what we are trying to achieve with our business is different than when these other companies that do bedding or pharma products or you know, all these mattresses, what they do, their goal is different than our goal. Their goal is to sell products.

Our goal is to help people sleep better. And so unless we found a partner that wanted to measure their success in the same way that we do, it wouldn't make a lot of sense. Now you're right that there's competition, right? When we are a company that's positioning itself as we are the solution for all your sleep problems, there's a lot of other companies positioning themselves like that. And so how we think about it is we, you need to, you know, in business you think of a moat and there's some key aspects for us that build that moat. One is innovation. There's nothing like new product introduction for a company that builds products. You've gotta stay ahead of the curve. We have to be the most innovative company. We have to be the company that delivers products that are really good, that people love, that actually solves their problems, that we have proof with scientific research and clinical evidence that these products are actually giving better sleep, right? So all of that is a big part of where we invest our money. And the second is that brand promise.

So it's not enough to just be a product, but when you're a consumer business, people need to really understand what you stand for and what you're giving to them in their lives. They wanna feel a part of something and they wanna feel like this company they're giving all this money to not just once, but now with our business model also every year, is giving them something of value. It's a part of the lifestyle that they wanna live or they wanna be a part of, that eventually builds community around their own likes. And so that is another key piece that we invest in as well, more from like brand and product experience. And I think if we do those too well it's going to be harder for other companies to just imitate. They may take other parts of customer segments though. There's definitely a lot of people that sleep in the world. So there's space for multiple companies to exist that do similar things, but for us we're very focused on owning our existing customer niche and scaling it from there. - Terrific, thank you. 00:45:08,010 Thank you for that detail.

Gang, we have time for one more question. Student Yep. 00:45:16,890 Hi, thank you so much for your time today. I just wanted to ask you about are there any, have there been any very memorable verticals that you guys have failed to explore as a company, like a target demographic? And could you give us like, like a reason why you thought intuitively it might work, but it turned out not to? - Yes. 00:45:42,990 And this is actually very interesting because it's a good example to explain that failure in a customer segment doesn't mean that that customer segment wouldn't work. It may mean that you're approaching it in the wrong way. So I'll give you the example. We, our product keeps you cool all night if you want it to keep you cool, I warm mine up. But a lot of people love it because it keeps you cool. And so it's very intuitive that you'd think like people who are experiencing hot flashes, like women going through perimenopause, would love this product, right? And that is not a customer segment that if you go to our website today, you would think we speak to, right? And so for years we hear stories of people who buy our product who are going through perimenopause and who love it because it solves that problem.

And we have kept trying to speak to that segment and haven't been fully successful at doing it. And so that's what I mean with, you know. So people are buying it and solves their problem, they love it, but we haven't found the perfect way to actually market to them. And we believe it's for a few reasons. One, the brand is not built around them, right? So we're performance brand, there's sleep fitness, there's a lot of things that you just see and get from the emotions of what the brand evokes that may not be resonating with them. So it may require us to either do a sort of a parallel branding exercise, or you know, adjust some things on the main brand for it that maybe we're not ready to do yet. We don't wanna compromise on yet. Two, we have this thing that Mateo talks about often, which is like the rule of the seven touch points. But for a product that cost \$3,000, you have to touch the customer multiple times in order to convince them to purchase. And we deploy all of our money on reaching a certain customer segment and whenever we've tried to reach that other segment of, you know, women in their mid forties to early fifties, we have failed and we have probably failed because we're not doing a good job at both that brand and messaging being appealing, but also it's surrounding them and proving to them that this product is built for them and other people like them are using it and loving it.

And so we always like try and we kind of fail, but we also know that in order for it to succeed, you need to go all in. You need to put in a certain amount of effort and time and money and say we're really gonna test this and we're gonna give it enough time, because for us we know that it can work 'cause it's evident that people use it, but sometimes the product and



the marketing need to just speak in the same direction. - Awesome. 00:48:27,316 Great answer. Thank you Alexandra. And thank you for the question. Gang, I have to wrap it. I wish we had more time, but gang, can we all give Alexandra another round of applause and please applause applaud loudly so she can hear it. Hope she can hear it, okay. - Yes.

00:48:45,060 - So, thank you Alexandra 00:48:46,620 for sharing your experience and insights to the students all the way on the other side of the country at Stanford with Stanford's ETL course MS&E 472, and with our ETL viewers and listeners around the world. To our audience, thank you for tuning in to the last session of the academic year of the Entrepreneurial Thought Leader seminar. We're gonna see you back in October, October 2nd when we kick off the fall ETL series and the fall lineup will be listed at [ecorner.stanford.edu](http://ecorner.stanford.edu), and you can also find more videos, podcasts, and articles about entrepreneurship and innovation there. Thank you everybody. (soft music)..