How will startups destroy your company? V2

What is the purpose of this article?

1) Help startup founders understand what's necessary to destroy incumbents.
2) Help incumbent board of directors, CEO, C-Suite, and investors to understand what must change to both survive attacks by startups and to destroy established competitors.

What are the critical learnings?

1) The startup is a temporary organization designed to search out a repeatable, scalable, and profitable business model with lots of potential customers who are willing and able to pay to solve their problems and needs. Startups are not building a solution. They are building a tool to learn what solution to build.
2) Startups begin by making assumptions about the problems customers are willing and able to pay for, and about how customers would perceive the value proposition they'd achieve from the startup's solution.
3) The startup is driven by immediate and ongoing understanding of the customer based on face-toface interviews supplemented by surveys.
4) The assumptions are quickly validated or invalidated. Invalidation results either in a new set of assumptions or the startup stopping.

Where is your company today?

1) Your company is a large, well-established incumbent.
2) Your company is not in crisis.
3) Revenues and sales have been growing yearly and are forecast to continue to grow.
4) Your board of directors is well compensated.
5) Your C-Suite is well compensated.
6) Your board of directors and C-Suite agree that everything is going well and that there is no need to make any major changes to the board, the C-Suite, or the company's business model.

How fast can your company end up in crisis?

1) Your company can go from double digit CAGR(Compound Annual Growth Rate) to negative CAGR within 3 years.[1]
2) Even country empires can fall within 5 years e.g. France in 1700, The Ottaman Empire in early 1900's. the Soviet Union in the late 1900s. [2]
3) Blackberry was the cell phone leader in 2007. The iPhone was announced in 2007. In 2008, the iPhone unit sales already exceeded Blackberry unit sales.

Will your company survive crisis?

At any given moment, 5-7% of incumbents are in free fall. Free fall occurs when a mature incumbent comes under severe attack by new insurgents. Only 10%-15% of companies ever pull out of free fall. [3]

What are the phases a startup goes through to destroy your company?

Phase 1 - create two sets of assumptions: #1 the urgent problem or need for which cash paying customers are seeking a solution; #2 a solution which enables the cash paying customer to achieve benefits (i.e. customer perception of value proposition) as a result of addressing their problem or need.

Phase 2 – validate or invalidate assumption #1 within two months. If invalided, either create a new set of assumptions or stop trying to launch a startup.

Phase 3 – assumes that assumption #1 has been validated.

1) Now validate assumption #2. Create a version of the solution that cash paying customers will both pay for and achieve benefits from. A solution can have three components: a) what you build, how the customer onboards what you build, how the customer perceives and measures the benefits they get.
2) If customers won't pay or does not achieve benefits, you have invalidated assumption #2
3) The startup now has two choices: create a new assumption #2 OR stop trying to launch a startup.

Phase #4 – assumes that both assumptions #1 and #2 have been validated.

1) The startup has some revenue.
2) The solution may be very unprofitable because the startup has manual processes and technology which is inefficient and will not profitably scale.
3) The startup now makes some assumptions regarding lifetime customer profitability and customer acquisition costs and the number of future customers.
4) The startup creates a plan to grow the business, with milestones directly related to the metrics defined by the milestones.

5) At any point in phase #4 the assumptions may be invalidated. There could be many reasons e.g. turns out that there are than many customers, customer problems and needs change, competition changes, etc.

Startups will have far better understanding of customers than your company.
1) What the cash paying customers perceive as the urgent problems and needs they are actively seeking a solution.
2) What the cash paying customer perceives as the value of the solution and the implications of not addressing the problem or need.
3) How the customer perceives your current value proposition.
4) How the customer perceive the startup's competitively differentiated value proposition.

How does the startup gain this deep customer understanding?
1) The startup does up to 100 face to face (in person or Zoom) meetings with potential customers.
2) Why?
3) To validate that there is an urgent problem or need for which customers are seeking a solution and the customers a both willing and able to pay for.

<u>What is the CEOs role?</u>
1) At the pre-revenue stage the CEO is spending up to 40 hours a week (of their 80-hour work week) on learning about customers.

What other ways does the startup maintain deep understanding of customers?
1) There is a massive amount of information coming in from many sources e.g. ongoing one-on-one interviews, focus groups, surveys (Net Promoter Score), interactions with call centres, customer support, customer onboarding, notes from sales and marketing people, interactions with 3rd parties that also deal with customers (suppliers), etc.
2) The directors on the board have current and relevant knowledge of the marketplace, customers, competitors, etc.
3) The startup never stops experiments with customers.

What is done with this flood of customer information?
1) Software (Thematic[4] and ethnographic[5]) analyzes this information.
2) It is critical to have detection of changes in the customer perception of: problems, needs, and startup's value proposition.

How does the startup know they will be profitable?
1) The key metric is lifetime customer profitability exceeding customer acquisition costs.
2) At the pre-revenue stage, theses metrics are assumptions. As the startup builds and scales, these metrics become facts.
3) The metrics may be tracked in a variety of categories: e.g. by cohort, channel, geography, demographic, etc.
4) It's critical to identify a downward trend in the customer lifetime profitability/aquation cost ratio.

Does the startup start building a solution immediately?
1) No
2) The startup is a temporary organization designed to search out a repeatable, scalable, and profitable business model with lots of potential customers who are willing and able to pay to solve their problems and needs. Startups are not building a solution. They are building a tool to learn what solution to build.
3) The startup may do things manually at first, in order to improve customer understanding at low cost.

What is the underlying reason for the startup being able to destroy your company?
The founders and later the CEO and C-Suite have a set of core talents that is superior to your company.
What are the 10 components of talent?
1) Self Awareness
2) Character
3) #Relationship skills:
4) Communications
5) Crystallized intelligence
6) Fluid intelligence
7) Cognitive skills
8) Ability to quickly learn and unlearn: paradigms, frameworks, methodologies, data, facts, knowledge.
9) Creativity
10) Physical capabilities.

Further detail is available in Appendix A

What are your next steps?

1) Define the words/concepts you're using, in a glossary. I've seen major confusion when the same words mean different things to different people.
2) Assess your company relative to a startup described above. Most long established companies have returned to the startup stage, but don't realize that. It's hard to build a roadmap for future success if you don't know where you're starting from.
3) Describe the talent a startup would need to be able to destroy your company. Include the board of directors, CEO, and C-Suite. Use the framework described in Appendix A.
4) Assess the talent of your company relative the startup description in 3) above.

Footnotes

[1] Chris Zook and Charles Allen, *The founders mentality*, 2016, Page 52
[2] Chris Zook and Charles Allen, *The founders mentality*, 2016, Page 106
[3] Chris Zook and Charles Allen, *The founders mentality*, 2016, Page 51
[4] software used to identify, organize, and interpret patterns of meaning (themes) within qualitative data such as interview notes
[5] software which supports observational research method where researchers immerse themselves in customers' natural environments—homes, workplaces, or stores—to understand behaviors, motivations, and pain points in real-time

What further reading should you do?

Your company will fail. Koor and Associates
https://koorandassociates.org/avoiding-business-failure/your-company-will-fail-v1/

Is your company planning to fail? Koor and Associates
http://koorandassociates.org/avoiding-business-failure/is-your-company-planning-to-fail/

Appendix A - What are the core components of talent?
Even more detail is available in the following article:
https://koorandassociates.org/creating-business-value/core-components-of-talent/

#1 Self Awareness
1) Internal self-awareness: How clearly we see and understand ourselves. Understanding what our competitive strengths, weaknesses, and capabilities are.
2) External self-awareness: understanding how other people view us.

#2 Character
1) VME (Values, Morals, and Ethics) Warren Buffett supposedly said "..looking for people to hire, you look for three qualities: integrity, intelligence, and energy. And if you don't have the first, the other two will kill you."
2) Courage: It takes courage to make the right decision. The right decision is often not: the cheapest, easiest, lowest risk to the company, lowest risk to you, and what everyone else is doing.
3) Perseverance, especially against all odds.
4) Knowing when to stop persevering. One leader told me "If you're digging yourself into a hole, stop digging."

#3 Relationship skills:
1) The ability to create and sustain a network of personal relationships.
2) Persuasion and negotiation, which is key to managing different points of view and interests.
3) Creating and maintaining followers. A leader without committed followers is not a leader.

#4 Communications
Communications activities include:
1) Writing, speaking, singing, drawing, and body language
2) Speaking and singing also include tones, pitch, etc.

Communications is two way:
1) Broadcasting
2) Listening, which includes analysis of input

#5 Crystallized intelligence
1) Crystallized intelligence is comprised of historical: skills, knowledge (including ways to think, mental paradigms, methodologies), and data.

#6 Fluid intelligence
1) The ability to solve problems without past experience. This is critical for innovation, which is coming up with new and better solutions.

#7 Cognitive skills
1) Long-term memory
2) Working memory: hang onto information while using it
3) Logic and reasoning
4) Visual processing
5) Processing speed
6) Attention
    a) Sustained – for long periods of time
    b) Selective – without distraction
    c) Divided – doing two things at once

#8 Ability to quickly learn and unlearn: paradigms, frameworks, methodologies, data, facts, knowledge.

#9 Creativity
1) The ability to think about a task or a problem in a new or different way

#10 Physical capabilities. These may include:
1) Senses, including sight, hearing, touch, smell, taste
2) Strength and endurance