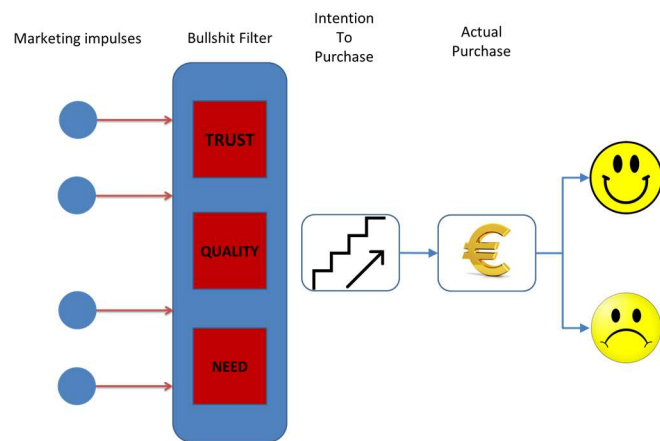




## Market - Product Fit: Speed up Customer Development to Survival and Prosperity

### Unraveling 'Product Market Fit' .....

Three out of every four startups that perish never achieve 'Product Market Fit'. Moving further towards bigger success is even harder. Usually, you have little idea how you got there. Growing your startup into a successful grownup is a difficult and inefficient process with often very disappointing results. The hardship to reach 'Product Market Fit' is largely our own doing. We have defined it by putting the cart before the horse; we can only measure it after we reach it. So, we cannot navigate our startup towards it and reach prosperity. Instead we stumble through Customer Development and we do 'Build – Measure – Learn', but with all too many casualties along the way.

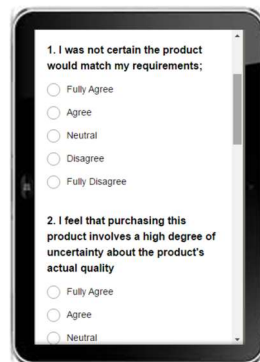


research, one Nobel Prize<sup>2</sup>, it is depicted in the figure on the left. Working backwards, it all starts with an actual purchase, either successful or not. The purchase did not come out of the blue. Making a purchase, especially an important one, involves careful comparisons and serious deliberations. During this process our 'intention to purchase moves towards a threshold, after which we clinch the deal. Marketeers understand this and they frame their messages to move us in the direction of their offerings. Fortunately, we are equipped with a 'Bullshit' filter.

The filter considers three different aspects of the prospective purchase: (1) trustworthiness of the vendor, (2) quality of the product and (3) need fulfillment. The filter regulates the Market - Product Fit and thus determines the likelihood for startups to make a sale.

### A Free App for Market - Product Fit

We have developed several ways to measure Market - Product Fit. One is a single question, in the spirit of the Net Promotor Score, that you ask your prospect. It gives you a decent first indicator of your Market - Product Fit with this prospect. The second and best comes in a free App that you can use in your sales talks and it nails Market - Product Fit in five casual questions.



### Satellite Navigation for Startups and Scale ups

Being able to measure successful performance of our startup 'after the fact' is pretty useless. Imagine a satellite navigation system that tells you that you reached your destination as you park the car. This is how 'Product Market Fit' works using the 'Sean Ellis Test'<sup>1</sup> or the epiphany "You will know it, once you have reached it...". A better way is like a real satellite navigation system. Before you start and on your way towards your destination. While underway, the system tells you the progress towards your goal and advises on obstacles along your path. So, we put the horse before the cart. We re-engineered 'Product Market Fit' into a Market - Product Fit and designed a satellite navigation system to navigate towards it: so to speak, "Google Maps™ for startups and scale ups.

### The Satellite Navigation for Startups?

We also built the satellite navigation system using our proprietary mathematical algorithms and AI. It tells you how your past decisions and actions on Customer, Product, Team, Business Model and Financials helped you and hindered you to get where you are now. Also, it tells you your best-ways-forward towards Market - Product Fit and how to navigate beyond on your journey from startup to scale up to grownup.

### Sign up and benefit

Go to our site ([startupprojecteurope.org](http://startupprojecteurope.org)) to sign up for the FREE app and participate in our 'Beta-by-invitation-only' of the satellite navigation system that runs starting this Summer. We will also send you a 'Quick Reference Card' with 'the-single-question-to-find-out-your-Market-Product-Fit'. Or, drop us a line at [info@startupprojecteurope.org](mailto:info@startupprojecteurope.org).



### Market - Product Fit

You can predict Market - Product Fit by looking at Customers' 'intention to purchase'. Rooted in five decades of empirical

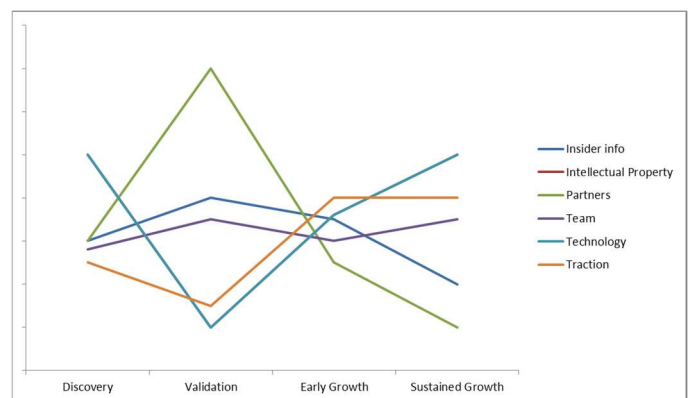
<sup>1</sup> You decide to send your customers an email telling them you are going out of business and give them a choice of three responses. If 40% (or more) opt for "Please do not do it, I your product is vital to my company", you know you have reached Product Market Fit.

<sup>2</sup> Kenneth Akerlof, Michael Spence and Joseph Stiglitz were awarded the 2001 Nobel Prize in economics for their analyses of markets with asymmetric information.

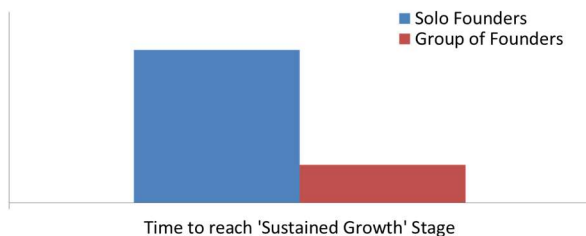


## Some of Our Findings on Market - Product Fit, Premature Scaling and Inconsistent Development

1. 74% of high growth internet startups fail due to premature scaling.
2. Startups that scale properly grow about 20 times faster than startups that scale prematurely.
3. Before scaling, funded inconsistent startups are on average valued twice as much as consistent startup and raise about three times as much money.
4. Inconsistent startups are 2.3 times more likely to spend more than one standard deviation above the average on customer acquisition.
5. Inconsistent startup outsource 4-5 times as much of their product development than consistent startups.
6. During the discovery phase 60% of inconsistent startups focus on validating a product and 80% of consistent startups focus on discovering a problem space.
7. In the validation phase, where startups should be testing demand for a functional product, inconsistent startups are 2.2 times more likely to be focused on streamlining the product and making their customer acquisition process more efficient than consistent startups.
4. Startups that haven't raised money over-estimate their market size by a factor TWO and often misinterpret their market as "new".
5. Investors who provide hands-on help have little or no effect on the company's operational performance. But the right mentors significantly influence a company's performance and ability to raise money
6. Founders that learn are more successful: Startups that have helpful mentors and learn from thought leaders track metrics effectively, raise more money and have better user growth



## Some of Our More General Findings So Far....



1. Solo founders take a factor FOUR longer to reach 'Sustained Growth' stage compared to a founding team of 2 or more and they are much less likely to pivot
2. Founders and investors overestimate the value of IP over market - product fit by a factor THREE
3. Startups need 2-3 times longer to validate their market than founders generally expect. This underestimation creates the pressure to move forward ahead of time, take on activities characteristic of the next stage and even start scaling prematurely
7. The perceived Competitive Advantages the startup needs differ cross the four Stages:
  - a. Insider info is important in the first two stages and then plunges
  - b. The importance of IP fluctuates significantly through the stages
  - c. Partners as a competitive advantage experience a spike in the 'Validation' stage
  - d. Team stays fairly consistent throughout all stages
  - e. The importance of technology changes slightly over time. Especially in the beginning it is perceived as more important than other competitive advantages
  - f. Traction dips in the 'Validation' stage and spikes in the 'Early Growth' stage

Join our project and spread the word. Please contact Geert Jan Beekman, Geoffrey Craps, or Frank Zuure via [info@startupprojecteurope.org](mailto:info@startupprojecteurope.org).