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SPOTLIGHT ON ENTREPRENEURSHIP

What Entrepreneurs Get Wrong

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by Vincent Onyemah, Martha Rivera Pesquera, and Abdul Ali

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ARTWORK Sara Hughes, *Scales of Economy,* 2007
Painted cardboard, 12 m x 3 m, Red Badge of Courage Exhibition, National Newark Building, New Jersey

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For many entrepreneurs, the process of launching a company begins with the lightbulb moment when they conceive of a breakthrough idea for a new product or service. Very often, they are so passionate about the idea that they believe its merits will be self-evident to prospective customers—that the innovation is so obviously superior it will sell itself. Entrepreneurs who avoid that delusion may think of their initial sales as a chicken-and-egg problem: They realize that getting buy-in from potential customers is a top priority, but until they design and build the product (which often requires securing funding, assembling a team, and many other tasks), how could they possibly make a sales call?

Both attitudes fail to recognize a simple fact: Salesmanship is central to the success of any young company, and entrepreneurs ignore this at their peril. Yet many do ignore it, in large part because they have little sales experience and have probably not taken classes in how to sell, even if they have formal business education (as Suzanne Fogel and colleagues explained in "Teaching Sales," HBR July–August 2012). For those in search of guidance, the research and advice on salesmanship may not offer much help: The vast majority of techniques, models, and strategies are aimed at large, established companies, not startups, which tend to face a unique set of objections from prospects. And when entrepreneurs get around to making those crucial first sales, they often make common mistakes, such as not considering the strategic advantages of a particular customer or extending a deep discount just to make the sale.

In our study of entrepreneurs in Hong Kong, Kenya, Mexico, Nigeria, the United Kingdom, and the United States, we shed light on how they approached the task of making their first sales and what they wished they'd done differently. In all, we spoke with 120 founders, more than half of whom had previous start-up experience. In this article, we examine the mistakes they cited most frequently, explore the objections they faced when they began making sales calls, and present an alternative sales model uniquely suited to a start-up's circumstances.

Regrets, We've Had a Few

The founders we interviewed cited the following five missteps most frequently:

Starting late. More than half our interviewees fully developed their products before getting feedback from potential buyers. In hindsight, most viewed this as a mistake, echoing one of the mantras of Eric Ries's "lean start-up" philosophy: Get in front of prospects from day one. As one CEO told us, "You'll learn more from talking to five customers than you will from hours of market research [at a computer]." The goal should be to gauge customer reaction to the general concept you plan to build. "Don't make anything until you sell it," advised one entrepreneur. "Get people really interested in buying it before you invest too much time and effort."

Failing to listen. Even founders who started selling early said they were too focused on convincing prospects of the new product's merits and not concerned enough with finding out what prospects thought of the idea. Some realized that their passion and ego made them respond negatively to criticism and discount ideas for changes that they later saw would have increased the marketability of their offerings. "Listen to the feedback from the customers and reshape your idea and your product to fit what they actually want," one interviewee advised. Another described the process this way: "It's really all about understanding what the pain point is in the marketplace, and the best way to do that is to talk to prospects and validate, validate, validate your idea." As one U.S. entrepreneur who had approached the task correctly said, "The goal of our demo was not only to explain what we do but also to give the illusion of explaining what we do, while we really tried to extract information about their business and how we could help them."

Offering discounts. Faced with pressure (from themselves or their VCs) to make early sales, many founders offered price discounts in order to close initial deals—often establishing unsustainable pricing precedents with those customers. Worse yet, news of the discounts spread around small industries, crippling the ventures' long-term pricing power. In retrospect, the entrepreneurs wished they had found alternative sweeteners to close early deals—free shipping, say, or a discount on orders placed before a certain date. And if you're going to offer temporary discounts, they told us, it's smart to put the terms in writing.

Selling to family and friends. Making early sales to family members was especially common among entrepreneurs outside the U.S. and for those in the restaurant, clothing, and wealth management industries. But you never know why relatives are buying from you—often their motivation is love, pity, or a sense of obligation, not compelling product quality. In retrospect, founders believed those sales created a false sense of validation and that they would have been better off pursuing arm's-length transactions with customers who would have given them candid feedback.

Failing to seek strategic buyers. For cash-strapped entrepreneurs with no sales record, the thrill of getting the first "yes" can blind them to other considerations. Can this customer open new doors or provide referrals? Can the customer supply usage data that could make my value proposition more compelling? Some of the founders we interviewed wished they had conducted a strategic assessment of their first buyers. Others chose their first clients deliberately in order to get feedback, per-

Some founders realized that their passion and ego made them respond negatively to criticism and discount ideas for improving their products.

Idea in Brief

In interviews with 120 company founders from six countries, the authors learned that most thought they had waited too long to start selling their products.

More than half didn't begin contacting customers until they had a fully developed offering. This traditional approach misses the opportunity to obtain valuable early feedback from prospective customers during the product design phase—a key tenet of the lean start-up methodology.

This article describes other common mistakes in entrepreneurial selling, reports on the unique objections company founders hear from potential customers (and suggests ways to counter them), and outlines an entrepreneurial sales model that utilizes early customer feedback to improve product design.

form beta testing, get referrals, or guarantee repeat business. These strategic first sales often led to long-term success.

Sorry, You're Too Small

As they looked back on their nascent sales efforts, the entrepreneurs we spoke with described a long series of hurdles. Many had problems developing lists of prospects. Once they had identified likely targets, they faced obstacles in getting past gatekeepers or securing appointments. (This is especially problematic in Latin America and Africa, where most people won't pick up the telephone if they don't recognize the number displayed. In those situations, founders needed to find acquaintances who could make referrals simply to secure an appointment.) Some entrepreneurs described difficulty articulating precisely what made their product or service different from the alternatives. When they did make a sale, several suffered because no one in their venture was responsible for accounts receivable. "I realized I had to collect when I ran out of cash," reported one Mexican founder. "At times, three or four months would pass without invoices being sent to customers, because I was not well organized."

The biggest problem with the actual mechanics of selling, however, was handling the objections of potential customers. Our interviews revealed five categories of objections, most of which are different from those faced by salespeople in established firms.

Efficacy. Potential customers were consistently skeptical about the ability of new products to deliver on their value propositions. Some entrepreneurs could show results from beta tests or independent lab results, but that wasn't possible for all products and services. In those cases, offering samples or free trials often proved effective. One of our subjects, the founder of a furniture reupholstering business in Mexico, made an early sale by eating lunch in one of his market's largest hotels. At the end of the meal, he asked the restaurant manager to introduce him to the facilities director, who came to the table. The entrepreneur showed him the worn fabric on the chairs and offered to refurbish two of them for a small fraction of the replacement price. Once the facilities director saw the finished chairs, he talked the business up at meetings of his professional association, leading other big hotels to place orders.

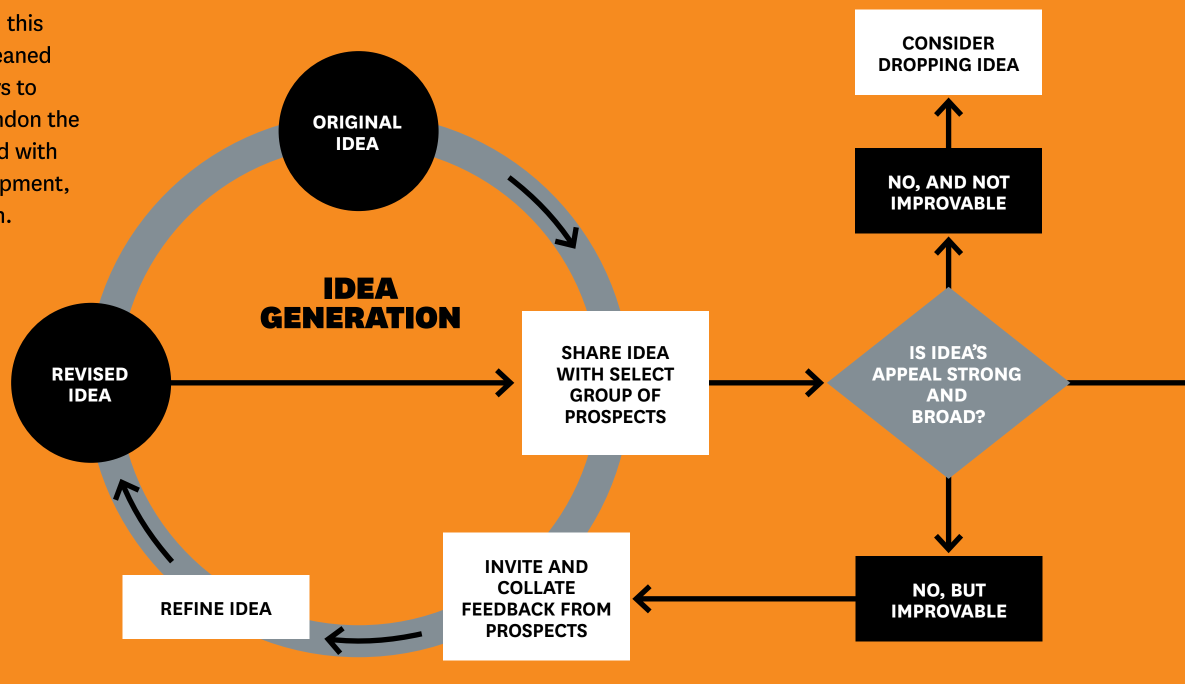
Credibility. Prospects also expressed doubt about a new company on the basis of the founder's age, gender, personal background, or experience level. Founders with relevant experience highlighted that; those who lacked it touted partners or board members with solid industry reputations. The founder of a Nigerian outsourcing company described the process: "The first resistance had to do with the company being very new, but I conquered that by showing that I'd been in this kind of business for years before venturing out solely. Then they looked at my board composition and felt the directors were credible enough—and *they* had confidence in this young company. That gave them the needed boost to say, 'OK, let's just have a go.'"

Size. One founder we spoke with summed up this pervasive concern: "How do you make the prospect comfortable with the fact that your company is small?" There is no easy answer. Many founders highlighted a key benefit of their company's size: the fact that customers were dealing with the CEO instead of a sales rep. For companies selling physical products, quality and value helped dispel concerns. Ultimately, though, overcoming objections about size required founders to develop trust with prospects and to take steps to reduce the risk of dealing with a start-up. For instance, some founders did not ask for a deposit from their earliest customers but instead used a pay-on-delivery model until they achieved a track record.

PHOTOGRAPHY: COURTESY OF THE ARTIST AND GOW LANGSFORD GALLERY

An Entrepreneur-Friendly Sales Model

Unlike traditional sales models for established companies, this model uses information gleaned from prospective customers to determine whether to abandon the idea, improve it, or proceed with prototyping, product development, and further lead generation.



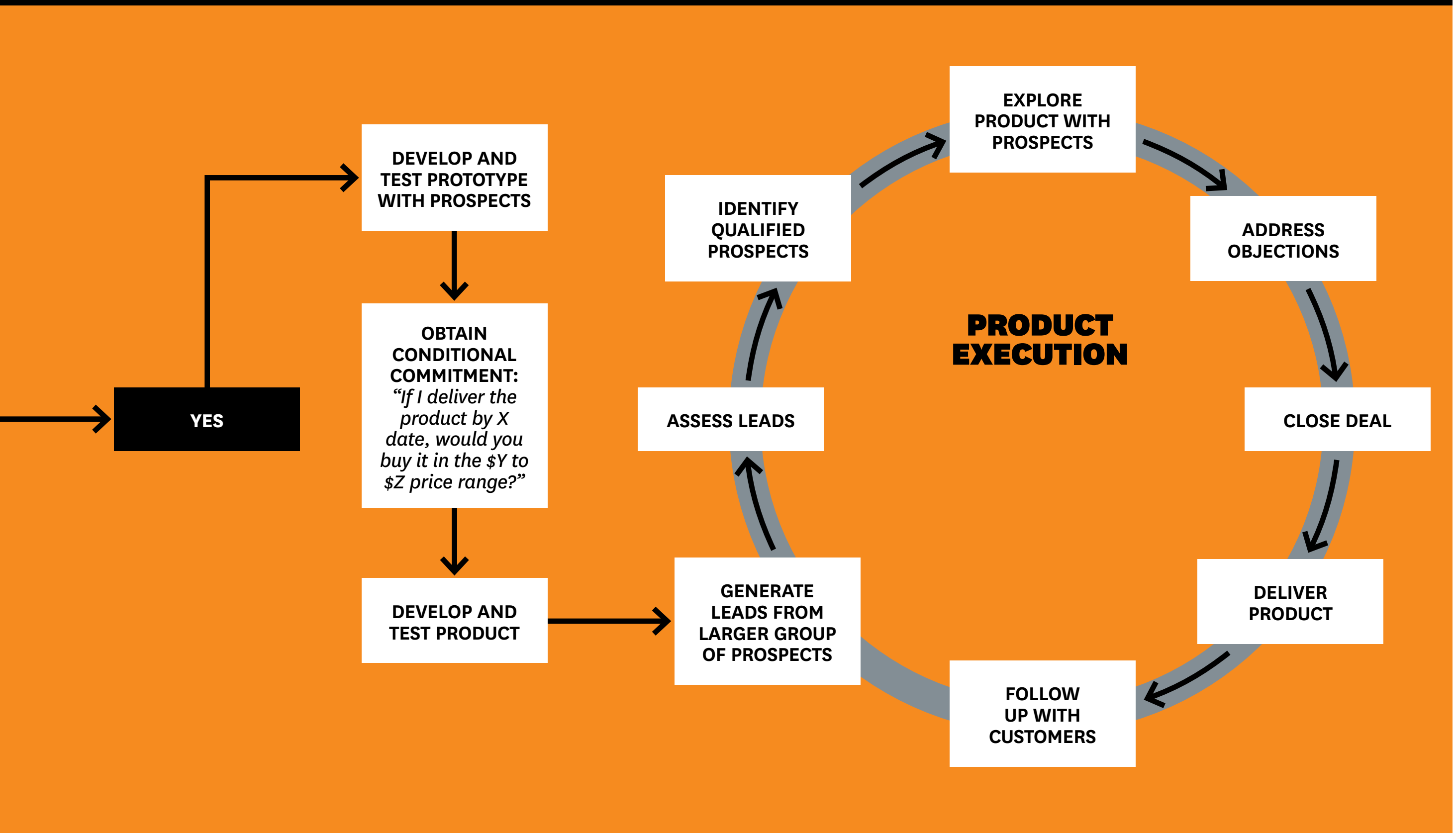
Price. Salespeople from established businesses often field complaints about price, of course, but start-ups reported that their prospects were especially likely to push back on pricing because they knew the entrepreneurs were eager to make early sales. In fact, several prospects stated directly that they expected significant price cuts for becoming early users. Some entrepreneurs walked away from those deals, some gave discounts, and others pushed back.

Price objections often stemmed from prospects' incomplete, biased, or subjective cost/benefit analyses, so savvy founders developed tactics to counter these. For instance, a Mexican start-up pitching digital recordkeeping to large organizations consistently met with executives who failed to account for the real estate and labor costs of storing a large amount of poorly organized records in a back office. Over time, this company's founders became adept at calculating those costs to illustrate the value of their service. For entrepreneurs who believed their prices were fair, a price objection could indicate that they were failing to adequately describe the offering. "Usually when prospects said they couldn't afford our service, I interpreted it as they didn't want it or didn't understand it," a founder told us. "That meant we had to go back and do a better job explaining our service and how we could add value."

Switching costs. To adopt a new product or service, prospects might need to modify their routines, procedures, systems, or internal or external relationships. Making such modifications to switch to a new, untested offering can seem especially costly, but buyers do not always verbalize these concerns. To address tacit objections about switching costs, the entrepreneurs we interviewed took it upon themselves to ask questions that would lead prospects to talk freely. One U.S.–based start-up that produced a mobile app to help people make restaurant reservations recalled a key problem at the time: "Most restaurants don't have a computer at the front desk, and so we had to address that. The managers said, 'Well, we're not really looking to change the way we do things.' Restaurants are pretty slow to change." The founders won managers over by showing them projections (based on beta tests) of how revenue would increase as customers became able to manage their own wait times.

A Sales Framework for Start-Ups

Existing frameworks for selling are focused on established companies. They almost always assume



that the salesperson has a fully developed product, and they have a simple goal: to make a sale. While these models advise reps to listen to prospects in order to anticipate objections or gain insight into the organizational dynamics that drive decision making, they generally do not account for the fact that information gleaned during the sales process can be crucial in designing (or redesigning) the product itself.

On the basis of our interviews with company founders, we have constructed an alternative model that's far more suitable for start-ups (see the exhibit "An Entrepreneur-Friendly Sales Model"). It calls for engagement with prospects as soon as an idea is conceived—and long before the product is actually created. The goal of these meetings is to obtain market intelligence not only about product design but also about promotion, distribution, and pricing strategies. After a round of these meetings, an entrepreneur should ask if the idea really has strong and broad appeal. The answer to that question should determine whether the entrepreneur jettisons the idea, returns to the drawing board, or proceeds to develop a prototype, obtain conditional commitments from prospects, generate more leads, and engage in other traditional sales activities.

Research has shown that it's easier to get people to commit to an idea if they are involved in its creation. By engaging with prospects early, founders can not only gather feedback to improve product design but also increase prospects' involvement in the process, thus raising the odds that they'll purchase the offering.

This model may also ease the challenges entrepreneurs face in getting appointments with prospects. If founders present the appointments as occasions to discuss products that don't yet exist—not as sales calls—prospects may be more open to them. In general, people are more willing to give advice than to listen to a sales pitch. Entrepreneurs can use that dynamic to their advantage.

START-UPS FACE many challenges, and entrepreneurs must wear many hats during the process of launching a company. It's no surprise that they often postpone selling (or otherwise engaging with customers) until they've already created and begun producing their offerings. Our research demonstrates, however, that early customer feedback is essential and that founders who fail to consult with customers soon after the lightbulb moment will ultimately come to regret it.

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