

# Success Strategies

## SmartUp Foundations Course - Lecture 11 - Part 1

Given December 1st, 2024 by Yonatan Stern

So I'm very happy to say that we are at lecture number 11, and I hope I still have something new to tell you. So we will see. As usual, we start with the team. You already all know the team. And this is a program to teach people the engineering profession of building successful companies. Suddenly dawned on me that actually, if you want to build a house, you have a process that you learn in an engineering house. If you want to build a company, there is an engineering process that you have to remember the definition of a successful company, which I keep repeating about profitable. First and foremost, profitable companies that are not profitable are always at a huge risk because once the money is gone, they have to lay everybody off. And that's really sad.

Fast growing, because companies that don't grow are just not very interesting and modest investment. What I'm teaching in here is to show you time and again how you can use the money effectively in order to build the company and not waste the money. We are actually working now on building the workshops that are mentioned here every time. And we will talk to you guys in person in the coming weeks to figure out how we do the workshops exactly so that they will be effective. And obviously there is the residency program. We work now with about four or five or six companies, I don't really remember. And it's very productive. So what I want to talk about this time is a book called Lean Startup. And I want to talk about what I call market Beach Heads. I have here a hyphen.

Later on, I take the hyphen out so you will see two Hs, one after the other. So it's called Beach Head. And in Hebrew it's a rosh geshel, which means when you try to conquer or get somewhere and there is an enemy on the other side, then you put all your effort in a very small area and you penetrate with full force. It's the same idea in here, is if you want to build a market, you start with a very narrow market. You put all your efforts on it. You build your beach herd, you generate money, you become profitable. Now you're safe, you're not dying anymore. You can start expanding. And that's the whole idea here, which is why I call it a beach hut. So let's look at the main points of the book, the Lean Startup.

And what I'm telling you now is what we're going to talk about in the lecture. And so we will go over it so you will know what to expect. And at the end, I will repeat it, we will compare the book itself to what we do in here. We expand on the concept of market beach ads and growth engines. These are two different terms and I will explain later on the difference between them. But they are both very important in building successful companies. Then we have a guest lecturer, Oded, here he is, and he will talk about his company in the context of what I'm going to show here, which is we're still struggling, scratching our head. And I actually ODED and I thought it would be very interesting to present in here a company where we don't yet have a solution.

So you can see something in the doing and maybe some of you will have great ideas for us. I want to talk about two other examples. We'll have Odette and then I'll bring two other examples, both of them taken from ZoomInfo, which I happen to know very well. Then we're going to talk about the notion of market product fit and discuss two options. And at the end we talk about the lecture we plan for next time, which is going to be with Daniel, who sits over there. So it's going to be interesting. So for those of you, this is the book. We have a copy in here. You can look at it. Don't take it. And there is a Hebrew edition. That's the Hebrew edition, so you can read it in Hebrew if you want.

And honestly, I will say it very softly so not to disturb the guy. This should have been an article, not a book. So you can the gist of it, you can get in about 20 pages. It's very interesting, by the way, but I think that about what I'm going to describe takes about 20 pages. So here's what the story is. It became like the Bible in the startup community and for a good reason. I mean, he has some really good ideas, but everybody is talking about the lean startup. So it's kind of the Bible. It focuses mainly on the importance of product market fit. So the whole idea in here is how do you build products that the market needs and how do you do that cost effectively? That's the main concept of the book.

And lean means in here that you try not to spend money before you are sure about what you do. So you build what's called an mvp, which is the minimum viable product. So you do something, you get it out to the market. We'll talk about it later. You learn and you keep improving. But the book really provides a methodology just for this process of product market fit. And it doesn't talk about the whole challenge of building a Successful company. So I think, and you have noticed that until today, I spoke very little about the product and for a good

reason. And the reason is most entrepreneurs and companies I talk to spend about 99.9, maybe 95% of their time thinking about the product. And they all assume if you build it, they will come.

So if I just have the right product, the whole market will discover it. The whole market will come. So that's why I don't touch the notion of the product so much, because I think there's full attention on it. What I'm looking at is all the other things that cause companies to fail. Okay, thanks. So taking an excerpt from the book, that's from the introduction of the book. This is a book for entrepreneurs and the people who hold them accountable, I guess, the investors. The five principles of the lean startup which inform all three parts of these books are as follows. Entrepreneurs are everywhere. I will not delve into all of these concepts, just one of them, because we really want to hear oded. So I don't want to spend the time now, if we have time at the end, I'll go over them.

Entrepreneurship is management. Sounds very familiar to what I said. This is a profession validated learning. How do you do the cycle and learn? And this is the most important element. We're going to talk about build, measure, learn cycles. This is the MVP process and innovation accounting. Again, if we have time at the end, I'll go over all of these things, but this is the one number four that the book is really focused on and where it gives you real methodology, how to do it. Again, this is from the book. It says build, measure, learn. The fundamental activity of a startup is to turn ideas into products. Measure how customers. I put an underline. This is my highlight. How customers respond and then learn whether to pivot or preserve or persevere. Sorry. All successful startup processes should be geared to accelerate that feedback loop. Okay.

And you can see the picture there at the end. Basically what it says is this idea, okay, minimum viable product. What do you do? You start with customer discovery. So you figure out a few customers and you talk to them. So let's say you have identified 10 different customers. You start talking to them, they tell you what their needs are, and then you build an mvp, a minimum viable product. You heard that they want this graph, this feature, this form, whatever it is, you build it, you show it to them and you get the feedback. They tell you, that's great, but it should be connected here. So you do that and basically you build the product. And all the time you ask him, would you buy this? Would you buy this? Would you buy this?

And when they say yes, they say, okay, now I have a product I can sell. That's the main thing he said, that's why I told you this can be written in an article. Basically, that's what he keeps saying. And you count it and you measure and you keep iterating until you get a product that people say, okay, that's good enough. The reason I say he's missing some really important points is that for every product there are many potential markets or market segments. So to say that you pick a few customers. If I go back here, two things. I put this line under the word customers. The whole question of who are your customers? Is far more critical than the product. I keep it, I repeat it again. Who your customers are is far more important than the product because they go together.

And I'll talk about a few examples where if you pick this customer, you have this product, and if you pick this customer, you'll have a very different product or very different set of priorities or important things to do. So that's very important. The process of who are your products? Should precede the process of building an mvp. When I talk about potential markets, they differ by many parameters. What features solve what problems? Okay, so let's start with this question. Different market segments have different problems that you try to solve. I'll bring many examples later on and the importance of the problem being addressed. So you can address a problem and you solve a problem for the customer, but it's just not very high priority for the customer. Yeah, you solved them a problem, but that's not bothers the customer.

See, many companies that do that, you know, they have a solution to a problem. But as I've learned the hard way in my first company, I think I told you that before we had a product that dealt with an expert system for maintenance of sophisticated equipment. At the same time, there was another company selling to the same market with a CRM, basically. And the other company was growing like crazy. We were growing, not like crazy. So I asked the customer, you know, why do you buy that product and not our product? After you told me it's a wonderful product, it's so important, it's great, blah, blah. He said, you asked me the wrong question. Said, what do you mean I asked you the wrong question?

So the question you should have asked me, if I only had \$1,000 budget, that's all that I have, would I buy your product? Or something else, I would have told your product is third priority. I have other priorities in life. So is the problem you're solving really what? The customer at this moment, ready to buy and ready to put money in is very important. I'm just showing you a set of examples of how you need to think about the market. How well the product addresses the problem, is it solving it, touching it, not doing anything, and the way the language in which the problem is described or defined. I know it sounds obscure, but same problem can be described very

differently by very different customers. Same exact problem. Okay, you can see it a lot in medicine, right? You say, I have a headache.

And they have some, you know, Latin terminology for it. Same problem, but two different words for it, two different ways to describe it. Happens a lot. If you are in the printing market, they call it one way. And if you are in the building market, they call it a different way. Why is that important? I'll explain to you and we will see it later on. If you think about marketing is done by language, right? You put an ad, you create a video, you put a picture. It's all language. You try to convey an idea or a message through language. You are not sitting in front of the person and giving a demo. You are doing something through language. So if you use the wrong language and the customer don't know what you're talking about, then you just missed it.

So it's very important to understand that the market you go after, you use the terminology and the language they describe their problem. Notice how complicated this whole thing is that most companies don't even think about, okay, I have this product. Why the whole world is going to buy it. No, it's not price sensitivity until you get a customer saying, okay, I'm willing to pay you \$5,000 for it. Where is the P.O. I need to sign it? You don't really have a customer. Again, my experience is that potential customers, let's call it prospects, are polite, they want to be nice to you. They don't want to tell you, nah, it's kind of okay. But I'm not going to buy. Say, oh, yeah, you did a nice job. This is really interesting, right? You know, very interesting in English means not interesting at all.

Okay, would you like it? Yeah, yeah, it's really nice. Nice job, really nice job. But when you say, okay, here's the peer of signing, they say, oh, wait a minute, now we're talking business. That's a whole different things. Okay, so until you get customers willing to pay you don't really know that they want it or need it. How easy or hard it is to create a list of potential prospects. Again, they say, what does it have to do with it? Well, if you want to build the beachhead, you need to know who is on the other side. If you don't know who is on the other side, you can't really penetrate there. So even this question, we'll talk about it later. Really critical and many, many more.

So I'm trying to show you the complexity of figuring out your beachhead, figuring out where you're going to start your sales. So let's play some market segmentation games. Okay? What is the difference between 10 bis and vault? Well, as we all know, both of them work with restaurants and can send you food, right? Well, Tenby's started with defining their customer as the companies. By definition, they work with companies because they work with companies, they solve the lunch problem. You know, all the high tech guys want to get lunch. So okay, we're going to provide you lunch. Each one of you can order whatever you want. But they wanted to put daily limits because they don't want people to spend money. They wanted to deliver the food only to the office. If you're not in the office while you get it.

Things have changed since the Corona. But that was the original idea. And because of that, they evolved into a company perk. So you can now use their card in order to buy at, you know, Chupasa. Why? Because, okay, if I give you a thousand shekels a month, you can do whatever you want with it. On the other hand, Vault was targeting the user, not the company. So they focused on what's important to the user. Arrival time with 10 bis. It arrived whenever it arrived. Where is the food? I don't know. Let's call them, find out. An hour, an hour and a half. Vault was, think about it. Same service, right? Delivering food from a restaurant. But look at the different attention to different problems and you will see two different markets, completely different. Same service. Exactly the same service, two different markets.

Users pay the delivery and they don't complain. Why? Because they make an order. They get it 10 minutes later. They love it. They can talk directly to the restaurant. Where is my food? You made a mistake. It's easy, right? And what happened then? Instead of the other company evolved to a company perk, this one evolved to be your delivery service. You can do shopping with it, you can do whatever you need delivered with it. And you can see how those decisions, who is your customer and what do you Focus on will make the two companies evolve in very different directions. Okay, what is the different market segments for a vpn? Any ideas copied from their site. The VPN site.

So you can see when you travel, right, and you want to watch things from your country or the other way around while having fun, as my daughter calls it. She says basically it's a nice way of saying watching Netflix in Israel when they didn't have broadcasting in Israel while on public wi fi. Obviously that's privacy, security, gaming, again, the same thing. So you can see that they can go after very different markets with very different messaging. Most people don't buy it for all six. Most people will buy it for one thing that bothers them, what they want to do. So you can start seeing how the market actually is very different. Six very different markets all combined into one product. It's the same exact product, but very different uses. Fitbit, Dropbox, same thing. Okay.

The people who use Fitbit can be people who exercise for fitness and they want to. They're on the go all the time and they measure every step or the last one, new feature, connect to a caregiver. You already like this and the family is worried that you're going to die. So it will alert. If the pulse goes down below 30 or something happens, you will get an alert. You can see the huge spectrum of fuses that go to very different markets, very different people, very different messages. Dropbox, same thing. And I will later on, if we have time, talk about what Dropbox did with it. So the first one is automatic instantaneous backup. You put a file, the moment you save it's saved on the cloud. You don't have to worry about it. You change it. That's before when they came out.

It was before Google, Dropbox and all of that stuff. One place for all your data across many devices. That's why I use it, because I have five computers and I want them to be synchronized all the time. Why do I have five computers? Don't ask. Shared files among team members, sharing very large files via links, you name it. There are probably 10 different users, 10 different markets. So the most important thing I want you always to remember, the most difficult thing you have in front of you is find paying customers not to build the product, not the technology, not to build the team. All of those pale compared to finding customers who are willing to pay you money. Everything else is under your control. You can hire people and fire people. You can write the technology three times until it works.

All of this is under your control. Customers are not under your control. They're just not. So your focus should be on these people. A logical approach is, first of all, you have to focus on customer before you build an mvp. And that's the main area where I start to split from the lean startup concept. It talks about customers as if that's a given, kind of, you have customers. What I try to tell you is, no, you don't have customers. The process of identifying who are the customers that are going to respond to you is the critical step. Once you know you're talking to a small market that behaves the same, then it's easy to get a product to that market. But you need to get to the point where you can talk to a market.

You want to have a market segment that respond to your messaging. But how can you do it without a product? So I said the answer before marketing is about telling a story. That's what marketing is. If you think about it. You try to tell a story. And a story by definition is not. The product by definition is you tell a story. So you don't need a product. Okay, you put it in text, you create a video, you create a picture. But there's no need for a real product, which means you can run a lot of tests while spending very little money about it. You can start, and we will talk about it later on, with the most simple one, which is Google AdWords, LinkedIn, Facebook, emails, any other available marketing tool. So it's very simple to do.

With Google AdWords, you can say, anybody who looks for this phrase, I want to talk to them. With LinkedIn, you can say, anybody with that title in that area, I want to talk to them. There are ways of getting to market segments that you can think of. Okay, so you start with an idea about a market segment and you test it by text. You have another idea for a market segment, you test it by text. Cost dollars, tens of dollars, hundreds of dollars. That's about it. And you see if they respond or they don't respond. They don't respond, which is in most cases, I didn't catch the right one. And then they start to respond to a certain message. Okay, I have here a market that is responding. So what you want to focus on are two things. The messaging. What did I say?

That got their attention. And the responding market segment. So you start talking to them. So those who respond, you start talking to them. You probably. Or you might have a beach heading here. So you figure out a way. I'm talking to a market segment that might be interested in Solving the problem I described or the feature I described. I've said I will talk about Dropbox, but not at this moment. So what I want to suggest is to change the term. The term used in the lean startup is market. Product is product, market fit. Product is the important thing, market. And what I would say is market, product fit, Focus on the market and then figure out what product fits that market segment. Actually, that's the reality. Okay.

What happens is by first identifying your market, beachhead, and by talking to prospects, you solve two major challenges at once. And that's the key here. You solve two things at the same time. You discovered a process and messaging that make potential prospects respond to you. Let's say you are in certain Facebook groups and people respond. Or maybe it is another social media that respond to you. And you say, okay, I have this group. It's 5,000 people. It's about 5,000 users. And they respond to me. I already solved the biggest problem possible. And they respond to a certain message, which means I am talking about something that is of great interest to them, which is why they respond. So you solve the marketing problem before you start.

And second, you can develop a product or a service that fits their needs at the price they will pay. So when you start talking to them, you don't talk about the features they want, but the value. It's very different. You say, well,

that's great, I'll pay you \$50 a month. Or you say, okay, I want \$5,000 a year. And they say, okay, I don't have to tell you that the difference is whether you are alive or you are dead. \$50 a month, chances are you are dead. Okay? So you want to make sure that what you talk about is not just the features, but would they pay what you think the product is worth in doing for them, and you can do all of that with a minimal cost. Okay.

Before spending any money on a team, my suggestion is always that the founder just does it, plays with it. It's easy to do. And before you do that, you hire anybody or you develop a product. Okay, I know what I'll stop here. I'll talk about. So I would like to take the idea a little bit farther than we discussed before. So what we said before, just to remind everybody, is that the beachhead, which means the customers that respond to your message is far more important than the product because you tailor the product to them. Okay, but I'm still talking about, call it brute force. So you put some ads, you advertise, you describe what you do and you expect for people to come to you. That works. It's a really good way to start.

But there is one step above it, which is what we call a growth engine. So if you remember, I'm sure all of you can recite it because it was a lecture number seven. I put the number so you can go later on and look at it that we discussed. What are growth engines? So it's a scalable process, which means you can double the output of it with a very small increment in the input. You want something that basically works on its own. That's what you want. Like we discussed in here with Odette a moment ago, he said, if I can put this engagement measurement, this device, it will have a life of its own. So people will start using it. It will just be useful because it gives value. It tells people what the engagement level of their presentation.

So it will have a life of its own. So that's what a growth engine is, something that has a life of its own and attracts the people, the prospects. You want to talk to you. Okay, so a branding growth engine is a process or a tool or content. So if you recall the lecture I showed you, many examples, sometimes it's a tool, sometimes it's content, sometimes it's both. But something that engages your process by doing two things. First and foremost, it gives them value. If it doesn't give value, it has very short existence. So remember that if you really want to build a growth engine that will take your company flying, it has to be something that gives value to the users or the people who read it. Okay? And number two, it has to cost very little to you.

Otherwise it's not a growth engine. Right? So it has something to do with really inexpensive activity or product or whatever it is that gives value. If we talk about just what Odette brought up, this engagement measure, it's a tool. It will cost us one time effort to build it. Not too much, but then it will tell people who give presentations at Zoom, you know, in a Zoom platform, a good measure. I'm talking now for half an hour. I lost half the people. They're not sitting there anymore. Their cameras are shut down or whatever it is. I see the camera on, but they are not there. Whatever it is gives you value. You can see every five minutes or 10 minutes, the audience, you know, like I'm doing in here. And I see this guy is working on the computer over there.

And he thinks I don't see him, but I still see him. But he listened. That's really nice. And I won't say names anyway, so you understand what I'm talking about in this. Okay, so let's look at some examples just to make it more concrete. So Facebook and LinkedIn, how did they grow? They had the most basic feature, which is give us access to your address book. So you have, let's say 200 email addresses in your address book. And then LinkedIn or Facebook sent an email to all of those people and say, hey, Jonathan is on Facebook. Do you want to join and talk to him? Right. That's the way they grew. So each person was essentially an agent that was talking to 200 or 300 people that knew him.

So essentially people would look at it because they know who I am, they are from my friends or not friends, and look at it. That's the way all of these social networks grew. All of them. They had this feature in them, by the way. There were many, many social networks that died. So you have to remember that all of this is great, but you have to bring long term value or else you die. Zoom Communications had two things that worked for them. Number one, it was free, was easy to use, you didn't have to download anything. Okay, I sent you a link. You clicked on the link you were in, and they also engineered the Corona.

Okay, so they came out to the market just at the right moment and were the right product at the right moment, but they took advantage of it and they did a good job at taking advantage of it. Zoom itself, okay, the one that I started, published a large directory of people in business. I've talked about it before. That was the engine, the growth engine of ZoomInfo for a long time. I'm sorry to say that in the last few years, I didn't see the engine working very well. But I'm no longer there. So tick check live. I don't know if you guys remember what they do. They sell tickets. Okay, so they sell tickets. Yeah, really exciting platform selling tickets. But what we did in order to get attention is we built a little engine that goes to every ticketing agency in Israel.

There are about 25 of them reading all the shows that they sell tickets to. Ellie did it, right, Ellie, raise your hand. And we build a product that pretty much aggregates all events, shows and programs in Israel presented on the web. We built a nice site. You can go and look at it. Dikchak Live. And it is now having a life of its own. I will probably talk about it in another presentation about how these engines many times take a life of their Own Ofster. I talked about it many times. It's the elasticsearch tool that we designed and built and the way we brought people to it, which is Elastic DevOps Engineer, which is a crowd, a very obscure crowd of people.

But we gave them content that was tremendously useful, which is what is the meaning of the error logs, the error log messages that they got. So the reason I'm talking about it is again because it is a growth engine, which means the investment is low and the growth is exponential. It brings you to profitability and fast growth. That's the whole idea in here. Remember I said if the company doesn't grow, it's not very interesting. So you need to build an engine in there that will take the company forward when you are asleep or in Thailand on a beach. Okay. You want something that continues to work while you are not thinking about it. TikTok Live works even on Shabbat, when these people keep the Shabbat. But we don't talk about it because it's not polite to talk about it.

And we have a shoe from the Rabbanut. Right, exactly. And obviously it's modest investment because the whole definition of an engine like that it is low cost. So we talk about this. You saw it talk about the relationship or the connection between a market beachhead and the jobs to be done. If you recall, the jobs to be done was. Don't remember. The presentation was a very interesting presentation. But essentially it talks about what is the problem you're trying to solve. So how do you do that? We can do it in one of two ways. And here is where it starts to be very interesting. You can sell a product, which is what most entrepreneurs think about. I have a product that can solve this problem. I will give it to the customer.

The customer is going to use it and when the customer uses it, he's going to solve this problem or the job to be done is can be done with that tool. However, there's another way of looking at the customer doesn't really care about the tool. He cares about the job he needs to get done. If I can do the job for him, that's wonderful. Why do I need to worry about it? If you can do the work for me and you do a good enough job and you charge me fairly, then I rather delegate the problem to you. Okay. Advertising agencies, right? See jobs to be done. I don't want to manage it. You're an agency. I'll give you the script. Go do it. Lawyer, right? Same thing. All I want is disagreement. I Don't really care about having a lawyer in house.

I just want this agreement to be signed. That's it. So the reason why a lot of companies don't look at delivering the job done is that investors look at it with the wrong eye. And say what? That's not scalable, that's not interesting. I tend to differ. And here's the key issue. Many products are too complex for customers to really use. We don't think about it, but many of these products are fairly complex. So if you look at Salesforce for example, now let's take Wix, which is even interesting. The whole idea of Wix was you can go on Wix and you can build your own website in a half an hour or an hour. But let's look at reality. The reality of it is that there are gazillion consultants who will build your site on wix. Why? Because I don't really care about doing it.

I'm willing to pay 100 checkers, 200 checkers, 500 checkers and somebody else to do it for. I don't need to do anything. That's the reality. So the reality of it, customers really want the job. They don't want to hassle with doing the job. And if you build something interesting, then you can have something interesting. So if you look at Salesforce for example, they have a really very large market of consultants and what's called VARs, value added resellers, these big companies encourage that. So they have a lot of consultants. They certify them, they teach them, and these people build all the applications you need. Another interesting thing is if you come with a tool, then you have to explain something that your prospects have never seen in their life. So first of all, they don't understand what you're talking about in most cases.

And second, they have doubts that it really can work. What, this? That I don't see how it works. Whenever you come and say, well, let me just give you the results. Okay, I'll give you the legal agreement. You, here it is, you can read it. You don't need to see how I mixed it and did it. Here's the agreement. Oh, then I understand. So it's much easier to sell the job than the tool to do the job. And remember, I'm talking about marketing, all that. I'm talking about explaining to people with the text. Here's what you're going to get. Much easier to say, I can do the job, I can build you a website much easier than we have a tool by which you can build a website. What A tool. On a computer. By myself. Forget it. I'm not doing it right.

You can see the difference now. The interesting thing is, and that's where it starts becoming an interesting company, is if you provide it by an internal technology like weeks, that you can start scaling it up because you

reduce the time internally to develop it and you develop a competitive advantage. So you can take a job that otherwise would have taken two days or three days, and you will see it with Danielle when she's talking next, in our next meeting, what she's doing. And you reduce the time significantly. So you can charge a lower cost than it will be done manually, let's call it, and still make tons of money because you can do it at a fraction of the time. So one of the companies we work with called Beyond Data or Bioform, that's exactly what they are developing, right, Jordan?

Which is we deliver to the customers the same product they used to get, but we do it in a different way. That's the philosophy of what we're trying to do. Very common philosophy. Another interesting element is that the market for jobs is much larger than the market for a product to do the job. And here is why. In order for the product to do the job to be economic for you have to sell it at a relatively high price, assuming that the customer is going to use it all day long or they use it frequently enough to justify the price. Whereas most customers need these jobs to be done on a weekly basis, on a monthly basis, not very frequent. So they can't afford the tool and it makes no sense to them.

So the moment you break this bind and you say, no, you don't have to buy the product. I can deliver to you what you need at a relatively low cost and at a very high quality, you are addressing a much larger market. Do you follow what I'm saying in here? Sounds really simple. Yet if you go to a VC and you tell them that's what you want to do, they will throw you out the door. Why? I let them explain. I don't know why. What happened, obviously, is that the customer pay the internal product development, right, because you want to do it as effectively and as efficiently as possible and with a very high quality. So you keep developing the product while you do these jobs. So what you have is a very large sample of jobs you need to do.

So you really train your system, but you train it inside the confines of your company, which means the engineers can look over your shoulder and say, that's how you use it, and when there is a bug, you say, hey Joe, I have a bug here. And you can show the bug and you can fix it right on the spot. So this program product is getting a very fast evolution because it is exposed to a lot of tasks with the engineers sitting there. So what you're going to get at the end is a really good job, a good product that was tested on hundreds, if not thousands of examples of doing the job. Okay, so.

And by doing so also you find gradually what are the market beach heads, because you talk to a lot of customers about the job and you gradually start to see how the market is divided into those islands, these beach heads that you're trying to get to and the language they speak about. Because remember before that you were talking about the job. Now if you want to sell the product, you start to understand who is going to use the product in a much better way. So for those of you who know what Intelligent does, so what they do is a product for demand forecasting. So you go to a company, Nuva, for example, and they want to know how many yogurts they need to prepare next week, how many heart cheese they need to do for next month, and so forth.

So basically they take the historical data, crunch it statistically and with some artificial intelligence or whatever, and give you a plan for what you need to produce next week, next month, and so forth. But this was too sophisticated, exactly what I described in here. A lot of customers said, yeah, okay, I understand, but really what they wanted was just tell me what I need to do and explain to me why what you tell me is correct, that's what they really wanted. And in general, they even sophisticated companies like Nuva or Strauss or Coca Cola, which are all customers of Intellichain, don't really have a good understanding of theory behind demand planning and supply planning and all of that stuff. So they were very happy to actually get the product as a service.

So what happened is we evolved to kind of package something that pretty much we trained them, we showed them, we did the work for them, and we sold them the product, all in kind of one big agreement that made them feel comfortable that they understand what they're doing and they get the results they want. So we didn't try to be purists and say, no, we sell a product, you buy the product whether you like it or not. That's not the way we're doing. There's what I wanted to ask about, because maybe again, it's maybe only my point of view. But with the AI era, now that we have, seems like most are expecting to have the job done instead of like the tool. They don't care about the tool, they want to have the job done.

Even zooming for pirate, before that was a tool that you use to get people to connect, to sell to. And now they already what their reason is. Now I want to close the deals already. It's a really good question. And it has only one problem. You're talking about the future. And I always refrain from trying to say how the future will look like, let's say from the year 2020, we live in terra incognita, uncharted. And even before that, you couldn't really tell. So how AI is going to impact the world, it's going to have a huge impact. I just can't tell you exactly how it

looks. But on the other hand, I can predict the behavior of people because over the last 30,000 years, we haven't changed. Okay, so all of us are split in the middle, probably like this.

More than that, half of us are basically grown up gorillas. And the other half is logical. Okay? We think, we calculate, we do all of that stuff. The decisions are made by the gorilla. The logical part explains to you why you made that decision. Okay, so we hate, we love, we despise, we want to do things. Nothing logical about it. So people will still be lazy. I can assure you that. They will still not want to learn anything they don't have to learn. They will still try to do as little work as possible and get the most recognition as possible. Nothing of that is going to change. And if you build your product to answer those needs, you're going to be successful. Okay? The product should say, wow, I love you so much. You're great. You know, what you did yesterday was wonderful.

You will love that product regardless of what it does. And you think I'm laughing, I'm not. That's the way it's going to look like because we are gorillas. What can I do? Okay, I'm going to take you through some interesting evolution of ZoomInfo because it shows you this notion of market segments and beach heads and all of that stuff, how it evolved, the zoom info. And even more interestingly is the reason I come up with all of these notions and explain to all of that is because of all the mistakes I aggregated in my life. Okay? So most of what I tell you comes from doing it the hard way. And only in retrospect I said, I should have thought about that. But at the real time, it wasn't like that.

So the company was founded in the year 2000, and we started selling in 2001. Had no clue who we are selling to, was no clue what the pricing in the packaging. So true to nature, we said \$99 a month, everybody will buy it. So we had a product for \$99 a month and we had the total sale of 0. Sold. Not a single copy, nothing. Well, it didn't take me long to figure out that at that pace, we're going to die very quickly. So we need to change direction. And the change direction was we're going to sell it for \$1,000 a month per copy. Why? Because we needed money. So that was the decision. And we wanted to go after the recruiting market. And the reason we wanted to go after the recruiting market was because the data quality was horrendous.

And we figured out that recruiters can live with really bad data because we also bought them something that didn't exist at the time. We're talking about the year 2000, 2001. No LinkedIn, no databases about people, and recorders needed to find people. And that was their job. So if I can give them a tool that they can ask a query like, I want vice president of marketing at software companies in the Boston area, there was nowhere they can type a query like that and get a list, even if half the list is wrong because the other half was right. And that was way more than they had anywhere else. And it saves gazillion amount of time. What you take today for granted just didn't exist. There was no way of doing it. And so we had a product that really had tremendous value.

All we needed to do is find the people that are willing to pay for it. So we said, okay, there are three segments. We understood it. There is internal HR departments. Big companies have HR departments that do a lot of recruiting. There are recruiting agencies that usually focused on some verticals, whether it's engineering, sales, marketing, whatever it is. And there was the headhunters. The headhunters are the people who hire C level and VP level at companies usually take a third of the salary, which means the person is going to make \$200,000. They take \$70,000. Half of it up front and half of it when they give you the right candidates. And no guarantee, by the way. So that was the market. And then we stumbled on an opportunity. Nothing to do with being smart. Zero.

There was a guy we showed the product to, I don't remember how we even met him, and he said, Boy, do I want to show it to my group. What is my group? He had a Group of VP of HR at Fortune 500 companies where he worked with them on how to handle the headhunters. Imagine. Complicated, right? So this guy had a group of like 50 VP of HR at very large companies. They meet once a month around table. He gave them lunch and they had a free talk about their experience with headhunters, what they like, what they didn't like, and everything like that. And he said, your product will make a huge difference. And we said, but they work with headhunters. Why would that do an impact? He says, oh, you don't understand. They hate the headhunters.

They think the headhunters are bluffing them. But with your tool, they can run the query while they talk to the headhunter, get a list of 100 candidates. And when the head under comes, he says, I did a lot of research And I have 10 names that can pull that list of 100 people and say, hey, you missed 90. You stink. That's what they really want. Funny, right? So lesson number one is, headhunters stink. Are you willing to pay for this \$1,000 a month, right? Exactly. Second, what you learn from it is they didn't want to do the job. They went and they hired a headhunter. We gave them the list, remember? We gave them the list. They are not going to use the list to call the people because that's too much work. Remember? Lazy, right? I'm just giving you life examples, okay?

Just so that you understand how difficult it is to say, I have a product that will solve this problem. And you realize people are different. They just don't want to do the work. That's why they are headhunters. And it's not their money. It's a Fortune 500, you know, cover your ass. I took the best headhunters and everything is fine. Then after we penetrated that market and we also started to see all the headhunters, because through them, we met the headhunters as well. So we started selling to the headhunters. That was our first beach head. The real beach had that. We sold \$1,000 a month. So here's what we accomplished. 2002, 1 million. 3c million. 6 and a half million. In 4, 2005, 8 and a half million. We grew like that. We grew because the product was extremely expensive.

And we figured out a way to put pressure on these people. Then in 2004, 2005, we published the Zoom Info directory. When I wanted to do that, my Co founder and CTO said, that's the stupidest idea I ever heard. His name is Jeremy, by the way. Phenomenal guy. I said, Jeremy, why is it a stupid idea? He said, for two reasons. Number one, nobody's going to look at it, so why do you publish it? Number two, is that our data that we try to sell. Why do you put it on the web for free? I said, because nobody ever heard about us. If we put it on the Web, maybe people will hear about us and it will change. So that was a huge growth engine, as I said before, and we started to expand from headhunters into sales. Why?

Because there are few headhunters. The reality of it is not a huge market and there are million or millions and millions of salespeople. So it's a much bigger market. What can better than that, right? We have a product, we have a market, we have a growth engine. We are fine. We're great. So what happened is a huge implosion or explosion or whatever you want to call it. What we discovered is that Headhunter 1, a needle in a haystack, at the end of the day, they're going to hire one person. And at the end of the day, they come with a list of maybe 10, 20 vetted applicants, right? So if I gave them a list of 500, they scanned it, pick 10 or 20, and then they talk to them. Salespeople wanted the haystack. They wanted to call 50 people a day.

That's what they needed. You know, cold calling 50 people a day. We're talking about 2005. Phone calls still were answered. So but they wanted to call. That means they needed a phone number. We collected the data from the Web. A lot of articles, press releases and so forth. No phone numbers whatsoever. So we had no phone numbers and no emails. Didn't bother headhunters, because if a headhunter needs to call somebody, they look at the company, they call the main number, and they get to the right person. Trust me, they get. And people talk to them. But salespeople, nobody talked to salespeople. So they needed a direct phone number, and we didn't have it. So the product just bombed, Literally bombed. So what I'm trying to show you is exactly, that's not a story about me or anything.

It's just a story about market, product fit the market of the headhunters. The product we had was great. The market of sales. Our product was a huge failure, even though it's basically the same product. But it's not, which is why it is so important to first and foremost figure out your beach head, talk to the market. Because maybe what you have is a goldmine for them and maybe what you have is just not interesting. It doesn't work. What we needed to do is build a whole different tool. We still use it. It's called the Swapper. Most horrendous name and product was developed in 2007 or 2008. What the product does at the time there wasn't Gmail was not very popular, but everybody was using Outlook. Outlook runs on a PC and what we wanted is to have you download a plugin.

The plugin would sit on Outlook, suck up all your emails, send them up to us so that we can extract all the signatures and all the email addresses from your email traffic. If you need a spy, that's a really good spy, okay? And so you can understand that people were not excited about doing it, but we did it and that's what built the business. We still do it, if I'm not mistaken. Right? Okay. And then something else started to happen. Between 2010, 2015, we saw a whole new set of competitors come to market, and that's URI and Hori. Now you should start listening about ideas that you want to look at. These were what we called the predictive guys.

Essentially it was companies that did predictive algorithms to try to tell you what is your icp, who are the customers you really want to talk about. And the way they wanted to do it was look at your CRM, extract the data about customers that you have and figure out what is their profile. There was a company called Mintigo, they were in Vanana shut down. A company called leadspace was in Hauda Sharon in my mind. And then there were Lattice was the leader one and others. There were maybe 10 of them. Altogether they raised over a billion dollars. These companies, Mintigo alone, I think raised like 70 or 80 million. And when I looked at them, I said it's not going to work for two main reasons. Number one is CRM data is very dirty. You can't really see anything in it.

And number two is it just was too small because B2B businesses have, I don't know, 100 customers, 500 customers, it's not big enough to really. And the third is most customers that have a few hundred customers already know who they sell to. So I don't need to tell them who is your icp. You just don't have a list of them. That's the problem. The problem is how do you find them? Not tell me that I need to sell to X. So talk about that. All of these companies failed, all of them. Okay? But the problem of creating a list of ICPS is critical and not solved. So what you have is the following problem, and I think I have some examples in here. First, I'll talk about this. Additional competition came from a new set of people.

Remember, what Zoom sold was information about people, name, title, company phone, email. Right? Turns out that what we did became very commoditized. There are many companies like Lucia, right, in Israel, Apollo People, and many others. There are maybe 10 or 15 competitors. They all do the same thing. They purchase the data from LinkedIn, not directly from LinkedIn, but the LinkedIn data is easily available on the market. You can buy it, 200, \$300,000 a year. You get the data and they all have some sort of a swap. It's much easier to do today because all you need is some sort of something that connects to Gmail and all you need to do is approve to Gmail. You click ok, and that's about it. And from then on you have access to Gmail. So the entire process became really simple.

And this competition reduced the price, put a lot of pressure on ZoomInfo. Okay, so these are the two things that I started to see during that period of time. I saw people trying to develop the ICP and people reducing the cost or the price of people information. This ICP stuff is actually very interesting and very critical because every company has a slightly different definition of who is their ideal customer profile. And it really depends on what they do. Okay, so if I have refrigerated trucks, who are my potential customers? Supermarkets, supermarkets. Who else? Logistic companies. Logistic companies. Logistic companies. Who else? Medical. Medical companies. Who else? Food producers. For example, fashion. Why? You shouldn't believe te hila when she talks about fashion. Okay? They waste about billions of dollars each year and throw them out for no good reason.

Okay, so what you start seeing is that they are very different market segments, right? What interested medical companies or pharma companies is not what is interesting. You know, how do you call them? Slaughterhouse. You know, they speak different language, but they need a refrigerator at the end. Hopefully the farmer doesn't talk about slaughterhouse. Right? So you really want to separate the two. So you can start seeing that the people who do refrigerated trucks need to have very vertical markets with very different list of names on it. And they need to understand the size of those companies. Is this pharma company have one refrigerated truck? Or 50 refrigerated trucks. Are they all over the US or they're mainly in Mexico. They need to know a lot of details in order to be effective in what they do. Law firms that do patent litigation.

Who are your customers? Probably companies that produce patents. Right, but who produces patents? Well, how do you do that? You go to the patent office, you run a survey of all the people who do this, you know, so you have to build a database that look very different than refrigerators tracks. Gas chromatography analyzer. I think maybe you are the only one here who understands what that is. Right, Yochai? Who else knows what gas chromatography is? Poor. You. Anyway, so it's a tool you use in chemical labs to figure out what are the molecules you look at. Okay, so who needs them? A lot of companies, they do chemistry mainly. A lot of pharma companies, food companies, you know, health, lots of stuff. Marketing automation platforms. Who needs marketing automation platforms?

Basically, Companies that do B2B, night vision goggles, hunters, Israel, you know, terrorists, snipers, sailors. Sailors. You can see, again, very different market segments. So you start seeing the complexity of building a list of your potential prospects. So I always, you know, when people come to me and I describe what I said, can you give me a list of your prospects? And literally, they always look at me like, what? What is this stupid question? Why do you ask that? Even I was talking to VCs, and they looked at me like I'm nuts. But if you cannot define how to build a list like that, you will never have the list ever. Okay, so how do you do that? So I extended the Zoom Info product. I'm talking now about 2015, 2016, just to remind people, I left in 2018 to include something called company attributes.

So what is company attributes? Is basically a list of tags or attributes that you can append to each company. It's unlimited. You can put 100, 1,000, 10,000, 5,000, whatever you want. Okay. Most of these tags were computed automatically, and I'll explain in a moment how you do that. But you can attach them to a company, and that will allow you to start building profiles of companies based on all kinds of things. So here are some examples of what we did. Number of salespeople. Why is that important? Really simple. At Zoom in, for when we got a lead, we needed to figure out if it's a good lead or not a good lead. And lo and behold, after thinking about it for about

five minutes, we said, okay, it depends on how many salespeople they have because that's how many licenses we can sell.

So we put a line above 10, it goes to a salesperson. Below 10, it goes to a BDR. Really simple. Right? So. But it was tremendously powerful because we can route the leads in real time. The only other criteria was the title of the person that filled out the form. If it was director and up it went to salespeople. If it was below that, we had to think second. The ratio of software engineers to salespeople. Just an example. Okay, so you really want to know what the company is doing? The ratio of VP level execs total number of employees. Why is that important? Because many startups have, you know, five VPs and no employee. Because, right, they all co founders, they all have egos. Remember we talked about egos? So what do you mean? I'm a vp, whatever. Because I'm a founder here.

So you really want, if you see a company, five people, five VPs, you stay away from it. Like, you know, crazy and so forth and so on. Okay, number of salespeople. How we do that? In Zoom info, we have a lot of people with titles. We just count if they are account manager, sales manager, sales, blah. We know it's salespeople, software engineer to people. Again, we can count by title because we have the titles of people. Same goes in here. So bear in mind we can do it on the data we already have. You see the power of it? We take the data we already have and we just start to count. Okay, Sales per employee mainly. You can do that only for public companies because there you have the number of employees they have to report it and the sales.

So you can take the two numbers, divide one by the other, and you get it. The CEO is a woman. Why? Oh, very important. In the US they want to show equal opportunity. You know, we don't have a glass ceiling and so forth. And in the U.S. Still, most names are either male or female still. So you can tell that Linda is probably not a man and Richard is probably a man. So you can make a pretty good prediction about that. But it's really actually very important. One of the things we did for PR is we measured the glass ceiling in different industries. And I still remember the industry that was the worst had very few executives. And it was the airline industry. Turns out that there are very few people at the top in airline industry. You see, it worked.

We did this analysis, we published it, we got to the USA Today as one of their factoids and it worked. Does the company have a Manufacturing facility. How do you know that? Interesting. Because you can look it by the title, if there are titles that we relate usually to manufacturing. And look at this job descriptions. The job postings are. And Tao was nice to do some project with me on job posting and see how much information you can pull out of job postings. Actually, it's a project I wanted to do for years at ZoomInfo, we didn't have the technology. Now with ChatGPT, it's relatively straightforward to do and you can pull. Because job posting usually include a lot of information about the company. You can pull tremendously valuable information from there. Okay, so forth and so on. Okay, I struggle all of this.

Oh, here's another thing. The company has a CRM, yes or no. It turns out that many CRMs have hooks into your website so that you can track people that come to visit and you put them already in the CRM so you can understand the. What's called the journey of a prospect. Where did they go? So you can see those hooks and you can say, oh, that's on hooks of marketing automation, CRM and whatever. And there are companies like builtwith and others that track it. You can buy it, you can include it, and on. So what you can see in here, it's an open opportunity. The other thing is it's better done as a service. It's just too complicated. Most customers will not understand how to use this data and how to work it. And it can be easily extended.

And that's an interesting extension of it once you build it for one customer. Let's talk about the refrigerators. Right? So you can start using it for other companies that try to sell to the same market segment. Let's say that you developed a list of all the trucking industry. You know how many trucks they have, what kinds of trucks they have. You can sell it to people who sell tires, to people who sell all kinds of equipment for trucks. You can start selling it in many industries. Okay, so any one of you who want to build this product is welcome to talk to me. I think it's a really cool product. I tried to do it, couldn't tell. So here it is, I talked about it. Okay, A list of all the company that have chemical analysis labs.

Obviously if you sell, you know, one instrument, you can sell other instruments as well and so forth. No, we don't have more time. So you see, I put it in here. I said I knew I'm going to hit the wall. So if there are any questions, be happy to respond and explain answer. Okay, just to remind, the next meeting or the next presentation is going to be done with Daniel and I think it will be really interesting because I explain why it's going to be interesting. She came with a company that pretty much the investors wanted to shut down. She had to let go or in plain Hebrew, fire everybody. And so she was left with a product, no employees and no money, and came to me and said, what can we do here? And we started thinking about the growth engines.

And the growth engines led actually to a slightly or very different product that is being developed these days, hopefully will launch in a few weeks. And I think it's a very interesting story to see what this kind of thinking about growth engine can do to your entire strategy and business model. So usually that what happens when you start thinking in the terms of growth engines, you come up with a very different and many times much simpler business model than before. So I encourage people who want to come here next time. Okay, thanks.