TEN Capital Presents AMA: Finding Product-Market Fit featuring Jeff Eversmann of Long View Technology Ventures

This is the TEN Capital AMA show. I'm Hall T. Martin, the host of the show in which we interview investors and founders on current topics.

Our guest is:

Jeff Eversmann of Long View Technology Ventures

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Hall Martin: my name is Hall Martin. I'm the CEO of TEN Capital, and today we have with us Jeff Eversmann, general partner at the Long View Equity Partners, I've known Jeff for a while, and he's done a lot of great work with startups and helping them with their business. And one of the topics he focuses on is how to achieve product market fit, and what product market fit is all about. And so, we invited Jeff to come on today and tell us more about that, and then, hope to answer any questions you guys have; if you want, just put them in the chat box, and we'll answer them as we go, but make this interactive. But appreciate Jeff joining us today. Jeff, thanks for being here with us. And with that, go ahead and tell us a little more about yourself and your fund and what you're doing these days, and then we'll jump into the presentation.

Jeff Eversmann: Thanks Hall. I'll get started here. So I'm with Long View Equity, as Hall said, and we are a private equity firm, and we focus primarily on commercial real estate, but we also have a venture capital fund called Long View Technology Ventures; and so, we use that fund to invest in early stage software startups primarily in Central Texas, and we've made about six investments so far and have probably another three to four

investments that we plan to make in that fund, and then, we'll look at either doing another fund or putting more of our time and effort into commercial real estate. Both markets are really hot right now, so we could decide to go either way. Also I want to mention real quick, I do teach entrepreneurship class at Concordia and their MBA program. And so, every semester, I get to talk through lean startup principles with a cohort of MBA students, and see how these lessons land, and what makes sense, what doesn't make sense when we think about how you're going to find product market fit in today's technology world. And so, that's what am I going to talk about today.
my first slide is, how do you know when product market fit is happening. There's a lot of questions out there about what is actually product market fit, and it's a gray area that hasn't been very well defined. This definition really comes from Marc Andreessen in one of his blogs years ago, I don't even know that you can find it online, I think you have to find it on a mirror site. But you have product market fit when customers are buying the product as fast as you can make it. I mean, everybody wants this, money is piling up in your checking account, you're hiring sales and customer support staff as fast as you can. And, of course, reporters are calling you, because they hear you've got this hot new thing, and, best of all, you're getting Entrepreneur of the Year awards. And so, I put a little tornado down at the bottom, because in the 90s, this was called being inside the tornado. That was a concept that was put forth by Geoffrey Moore in his books Crossing the Chasm and Inside the Tornado, and it's a situation where everything is going right, customers are buying stuff as fast as you can make it, and you're selling as much as you can. That's what everybody wants. Now, the problem is, that's not what everybody typically gets. And so, how can you tell when product market fit is not happening? The customers aren't getting value out of your product, word of mouth isn't spreading, usage isn't growing, press reviews are blah, and your sales cycle takes too long, and lots of deals never close. And so, this is where we find a lot of the startups after six to 12 months of being out in the market, and they're wondering, why are things not working, why is word of mouth not spreading, why I'm not getting a lot of exciting press reviews, and it takes too long for me to sell the product. And so, that's really a function of kind of this old, traditional product development lifecycle. And so, this is what's worked for years and years; this is what I studied back in the 90s, actually got certified I think in early 2003 as a new product development professional by the PDMA Association. But essentially, you come up with an idea, you do product development, you do alpha and beta testing, and then you launch it.

And then, 2007 timeframe, 2011, we decided, okay, we're going to replace this alpha-beta thing with what we call an MVP. But we didn't change anything else. We still came up with an idea, we developed a product, we called it an MVP or a minimum viable product to follow the lean startup methodology, but we then launched that product; and the challenge with that is it doesn't really focus on the customer or the customer problem, and there's a little bit of that in here, when you're following this traditional product development lifecycle, back in the 50s, and 60s or even the 70s and 80s, products were pretty limited in what you can do, markets were not as new and as exciting as what we're seeing today with some of the software products out there; and so, you would do a lot of research on your concept, and it would take months, if not years, to do product development, you would test alpha test with a few customers, beta test with a few customers, and then you would launch your product. And that process worked fine for decades. The problem is with today's technology products, you can develop a product very quickly, sometimes in a 24-hour hackathon. And if you don't pay attention to what problem you're solving, and how customers are experiencing that problem, you're going to come out with a product that nobody wants to buy, and what we see is time and again, after they do surveys, they find the number one reason that startups fail is no market need. And so, what I like to focus on this is, it's not going to catch on because it's not as catchy as product market fit, but it's how do we look at market problem product fit. And this is a little loop I put together, it is by no means a flywheel, but we're going to spend the rest of this afternoon talking about how do you make this your focus when you're going out to solve a problem. And so, what I like to start with up at the top is what market are you going after, what's the total available market. And typically, you want to go after a large market, especially if you're planning to get venture capital investment. Ideally, you would go after a billion dollar market, but just understanding where does my concept fit in a market perspective, am I selling software, am I selling consumer product, am I selling to enterprise, am I selling to individuals. Who am I selling to, and what is the size of that market at a high level? After you determine that, then you go in and focus in on the problem. You really look in depth at what is the problem that we think we're going to solve with this product idea that we have, and you validate that by interacting with the customers.

Now, I have a little blue arrow going back, because this is somewhat of an iterative loop – I analyze the problem, I go out and talk to some customers about the problem, and then, maybe I adjust my definition of the problem. I go out and I find out, okay, what kind of alternatives are out there, I talk to some customers, and then, I get a better understanding of the problem, and you're still iterating in this process until you confirm that you and the customer are on the same page in the context of what is the problem. One of my favorite tools for this is called the Problem Statement Canvas. I mean, you can Google that. There's one article out there that's fantastic on the Problem Statement Canvas. And if you can go through that, and answer that in detail in the blog that once you Google Problem Statement Canvas, you'll find that blog, and he talks through how he worked with some entrepreneurs and the accelerator in Brazil to work through this problem statement, if you can go through that and understand in very specific detail what the problem is, how the customer experiences the problem, what alternatives are they using, or do they have access to, what are the weaknesses of those alternatives, and why they would buy something new, now you're ready to move in to think about, okay, what is the product solution that we can put together to solve this problem. And so, that's when you start spending time on understanding, okay, product solution, build out your concept a little more to define, here's what I think our product's going to look like, is it software, is it services, is it a consumer product, are we going to manufacture something, are we, you know... That's when you start to get into the details of, okay, what's my product solution that I'm going to put forth to solve this problem.

The next stage as we're going around this loop, if you will, the next stage is to refine your market a little bit – okay, I'm not going to go after the total market with my first product, so what's my served available market, what's a smaller market where I can define the problem a little further, and now I know, okay, I'm going to define who my customers are a little tighter. Right? I may refine down from I'm going to go after a huge market to I'm going to go after a regional market, or I'm going to launch in a specific state or a specific demographic. But I'm going to refine my problem down, and then even confirm again a little more tighter with my customer, okay, am I still on the right path to solving your problem. Once you get that resolution, once you've confirmed with your customer that, okay, this problem, there's a lot of people that experience it in this specific, smaller segment that I'm defining, let me build what we're calling this minimum viable product in order to solve that problem and actually put something out in the customer's hands that they can start paying for. In the market space, what you want to do is you want to define that served available market down to what's called the minimum viable category. And so, this is where you take kind of your initial target market and say, okay, how small do I need to define this, so that with my MVP, I can have a majority of this market in 12 to 18 months. So that's your minimum viable category, and that's defined pretty well by Bruce Cleveland, in his book, the Traction Gap, and this comes from a concept that was put out by Geoffrey Moore in the 90s, again, back to the Crossing the Chasm, his bowling pin strategy of what is your initial target market that you're going after. And so, once you define that minimum viable category, now you're launching an MVP into that category, where your goal is to get 50% market share in 12 to 18 months, meaning you are the market leader in this category.

So that's the process that I recommend people go through, and this comes a lot from the lean startup stuff and the customer discovery, customer validation, customer creation. I mean, this is in the early stages of how do we iterate on the problem and iterate on the customer, so that we know when we put out an MVP, I know very specifically, who I'm selling it to, why they're buying it, and how I'm solving their problem. So I went through that really quick. My hope is that this kind of spurred some questions that some of you may have about, okay, where are you right now, and you may feel stuck, if we go back to the slide on what's not happening, what in product market fit, kind of, how can you go from where you are now to kind of reengineering your product to get better visibility into how to get to product market fit. So I could keep talking, I think now's a good time to open it up to questions, Hall, if you've got any questions you want to.

Hall Martin: Sure. The question I had was, when you go through this process, and you get your MVP, your MVC and so forth, what is the next step after that, is it to solve another angle on the problem, or is it to reiterate on the original MVP to tweak it over, which way, you know, should we try and do MVPs that cover all the different categories, and all the different cases, or do you try to pick one and just keep iterating on it until you get it right, so to speak?

Jeff Eversmann: Yeah. So that's a great question, and it ties back into the bowling pin strategy that I mentioned earlier from the 90s, and so, what I recommend you do is you have one MVP, and you're going after this minimal viable category, meaning, I'm trying to get market leadership in what I've defined as a minimum viable category; and that could be as narrow as I'm going to have 50% of the Austin market or 50% of a subset of the Austin market, but you've defined it down narrow enough that within a year you're going to have something that is a market leadership position, but also a market leadership position that can then allow you to transition into a new category. And so, once you've got that, or as you're getting, what we call, fit in that minimum viable category, you're now going back around the loop, you're taking a step up to your served available market, and you're saying, okay, what is the next market I want to go after, what's the next minimum viable category that I'm going to define. And then you go through the loop again, to say, okay, do I need to change my MVP in any way to get this next category, or is it just a – is it a marketing and sales exercise, and now, instead of just focusing on Austin, I'm going to add the San Antonio market. Or instead of just focusing on this type of problem, I'm now going to expand the scope of the problem a little bit more, I'm going to add some features to my MVP, and I'm going to launch it into what's now grown into a larger category or a similar minimum viable category with the same goal of in 12 to 18 months, I've got 50% market leadership position.

Hall Martin: What does SAM mean?

Jeff Eversmann: So that's the served available market, and so, if you look at the biggest market, the total available market is what you would get if, what I call, you had unlimited resources, unlimited time, and you're not held back by any kind of constraints. So that would be your total available market. Now, a lot of people get confused and think, well, total available market is everything out there. Right? So if you're an enterprise software company, and I've seen this in pitches, they come in and they say our total available market is 440 million or $440 billion, and they've got a little software product that is a niche product for ERP, and no, your total available market, if you had unlimited time and unlimited resources, you're not going to sell every piece of enterprise software in the world. And so, you're not going after a total market of 440 billion, you're going after a total market that, you know, if you're just going to focus on being an add-on to this specific example, being an add-on to an ERP platform, your total available market is all the users of that ERP platform. Now, you may expand that total available market in the future, but you got to look at, okay, what are we trying to accomplish, and there are certain verticals within enterprise software that are limited in scope. And so, you want to identify what is the vertical that we're playing in, and how are we 5-10 years out, if we did everything right, and built out all the features in our software, that would be our total market. If you take a step back and say, okay, well, I can't build out all the features today, I don't have unlimited resources to go international, and so, my served available market to me today may just be the Austin market, or it may be Central Texas, or it may be the Texas market for various reasons; or, I'm only going to put certain features, I'm only going to solve certain problems, and the people who have those problems are X, and that's your served available market.

Hall Martin: Okay. So other than lack of features, what else makes SAM different from TAM?

Jeff Eversmann: A lot of times it's geography, and so, your SAM may be, okay, we can only sell this in the US, it's not so much in enterprise software or something, because with software, you can have a global market pretty easily, but you may be, for instance, I can only sell this because I only have these kinds of resources to go out and meet with these kinds of customers, and that's who I can serve today. And so, served available market changes over time as you add, like you said, features, and as I add resources to get access to more companies, and as I add geography. Served available market can also be impacted by your credibility within the market. So, for instance, if you're producing a product that's going to go up against IBM, IBM's market's pretty huge. And so, you want to refine your market so that you're not competing head on, you're competing in a niche where you have an advantage, and that may limit your served available market based on your competitive advantage against a larger competitor.

Hall Martin: So in addition to the product features, do you also test pricing and monetization strategy, and what else can you test?

Jeff Eversmann: Yeah, that's in a lean startup, that's part of customer creation is testing your monetization strategies, and so, I don't really cover it here, because I think what I'm trying to get to is a product market fit type approach. And so, once, I mean, part of product market fit is that customers are willing to pay for your solution. So you do have to test those strategies to see, am I solving the problem in a way that is consistent with how much the customer is willing to pay for the solution. Right? So you're going to have to test that strategy with the MVP, because the goal of the MVP is not only to get customers trying your software, but to get them to pay for the software, in this particular example of a software company. I don't want to just put out a freemium model, I want to have something that's got a paywall that says, okay, I've got enough value in my product that a customer is willing to pay me for it, and I can test out different pricing models, not only on dollar amount, but on whether it's a subscription or a one-time purchase, or even the method of payment, right – do they want to send in payment, do they want to do credit card payments, and all that kind of stuff can be tested in customer creation.

Hall Martin: Great. And so, with MVPs, how many of these do you see most companies doing before they either pursue that as a product, or they decide this is not going to work out, at some point, you have to pull the trigger, how many iterations are you seeing people do out there?

Jeff Eversmann: So what I usually – so we invest in the very early stage, and so, what we typically see is they have the MVP, and they put it out in the market, and they have enough time to maybe iterate once or twice before they run out of money. And so, that's one of the things that's key in the early stage investing is the MVP has to be really close to being something that can generate revenue to get you to the next stage so that you can get the next round of funding. But I think what I mostly see is I don't see people following this, and so, they'll have the one product, they'll get it out there to meet with customers, kind of, that previous model I showed where you're kind of going from a concept to a product that you're calling an MVP that you launch, and there's no iteration in this process. And if the launch doesn't work, you're shutting the company down – unfortunately, that happened to two of our investments last year that they weren't able to iterate quickly enough on their MVP.

Hall Martin: so why do startups fail even after they've reached a series A round or later?

Jeff Eversmann: So that's a great question, and you can fail at any time as a startup, and part of it is you can have, because MVP concept is not very well defined, you can think you've reached that point, when really you've maybe got half of your market, or it's not really, I mean, it's probably what I call, I call you were fooled by early adopters. You've got some early customers that caused you to think you had product market fit. And, as a result, you went out there and raised capital either an A or a B round, and found out that, you know what, I've got customers, but I've got customers who are early adopters, meaning that they'll try anything, and they'll try it for a little bit, and then, when it doesn't truly solve their problem, then they'll turn, and then I'll have a high turn issue, and I won't really know what's happening. And because I'm not focused on that customer feedback loop, I just start losing customers, and my thought is, okay, I need to hire more salespeople, and I need to hire more salespeople to bring in more customers, because I'm losing customers, and that's really the state where you should be going back and saying, okay, what is broken in our understanding of the customer problem and our ability to solve it? And so, I see – I mean, there's a lot of examples, if anybody has any specific ones, you know, we could talk through those, but there was one recently in Austin scale factor that shut down after quite a few rounds of fundraising, and the reason was, because their MVP, and not being on the inside, but their MVP was primarily fulfilled by people, and their product was supposed to be an automated solution, and they weren't able to build the full product. And so, they eventually got to a point where we can't continue solving this problem with people, and we can't get the product to work, and they also got hit by the pandemic. And so, a lot of their customers turned as a result, and so, they had to shut down. But there's plenty of examples out there of other companies that haven't – they have this concept of, I've got product market fit, and I get pitched by investors, I mean, by entrepreneurs all the time, they come to me, and they're convinced they have product market fit, and they've never launched a product, and they've never put an MVP in customer's hands. Because they get this in their head that I understand the problem, and this is how I would solve it, and, as a result, I've got product market fit. Or they talk to customers, and they say, hey, isn't this a cool idea, and every customer says, yeah, that's a cool idea, until they think, okay, well, everybody's excited to hear about my product, and they want it as soon as I have it, so I must have product market fit. It's not until you actually start selling it and confirming that you're solving the problem, like, there's a two-step process in there, you can't just sell it, you have to sell and confirm this solves the problem that I said I was going to solve, and the customer confirmed that I did. And then you've got a customer that's going to help you build your way to product market fit, because you've got a product that's solving a problem.

Hall Martin: where does Long View Technical Venture Funds work in, which spaces are you focused on?

Jeff Eversmann: So it's easier to say what we don't do than, because we're pretty opportunistic, when it comes to investments. We look at investments in enterprise software that have a big data component, and so, we're looking at stuff that has an opportunity to leverage data in the future. Some of the things we don't do, we typically don't do anything related to healthcare or medical, we just don't have any expertise there, and we don't do CPG or consumer packaged goods. We like to stay with software as opposed to something that's got an inventory component, because we feel that software can be very capital efficient, and we're making small investments at the very early stages.

Hall Martin: Great. So are there any best practices around setting up to do MVPs with a startup – you're typically leaning on the team, and you're trying to get down to the minimum in this case, but what best practices you see successful startups do to make this a great process for them?

Jeff Eversmann: What I've seen is you're really – so many investments we've made, there's multiple types of investments. Just looking across our investment portfolio, there's the engineers who were kind of in love with their solution, if you will. So they're focused on the product. They're really focused on this flow. I know the product development, I know how to build a product, I know how to launch a product. The ones that we see that are successful have a business development person, or a kind of a systems person that's interacting with the customer on a continual basis as the customer is starting to use the product. So it's somebody that brings in that customer success component early on, that says, okay, we're going to put a product out there, but we're going to assume it's not right, and we're going to continually ask customers for feedback on how can we make this better, how are we solving the problem, how are we getting better with each release and adding features. I think one of the worst things you can do is add a whole bunch of features and hope that that's going to sell more product. We've got to have somebody that's working side by side or understands the customer in detail, and can see how are they using the product, is it getting close to solving their problem, and, if not, what do we need to change. And it's those little changes that are going to help you be successful to kind of refining your product to get that product market fit.

Hall Martin: What sort of startup would say you should fall in love with the problem, not the product, what do you think about that statement?

Jeff Eversmann: I totally agree with that. I think that you're – one of the startups I'm looking at now, they fell in love with their product, and the problem is that I think the investors will look at it, so more experienced investors, and our goal is to get somebody to that first preferred round, if you will. So our ideal is, okay, we put in a small seed amount, you guys take the product through this MVP iteration process to prove out this minimum viable category, and then, either a Silverton or a Next Coast comes in with the seed round that says, hey, we want to put money into either 5 million or something check to put some growth capital behind what you've already proven. And so, if you're in love with your product, you're going to be iterating on the product with the hope that you can figure it out, and the customer is eventually going to come to your product, because you've figured out that last feature that was missing, and now you've got a product that customers want to buy. I like the phrase you'd have to fall in love with the problem, because that's your key differentiator. If you understand the problem better than anybody else in the market, that's the kind of knowledge that your competitors can't come in and get quickly, they can come in with enough resources and duplicate your product. And some of the, I said earlier, one of the companies I'm looking at now, they are in love with their product, and don't realize that that is probably the easiest thing that they're doing. Creating that software product is probably the easiest thing that they're going to do. All this other stuff is where the value is added.

Hall Martin: How close do you get to customers as board or advisors?

Jeff Eversmann: Historically, we don't get close to customers. And so, we're kind of on the outside and helping coach through this process as opposed to meeting with customers one on one, and that is probably because the opportunity has not presented itself. I have some ideas for one of our investments right now where we may get involved in kind of having this conversation with the customer to see. But right now, historically, we haven't.

Hall Martin:. And so, you talked about people not doing in MVPs or thinking they've done it, but aside from that, what do you think is the biggest mistake startups make within MVPs?

Jeff Eversmann: A _________ mistake that you can make with an MVP is designing it from a kind of a product perspective, but not as a validation tool. And so, what you want to think about when you're designing an MVP is not only what's the problem that I can solve in the cheapest way possible that's going to provide the most value, but how do I put stuff into my MVP, whether it's monitoring software or pixels or whatever I'm getting beyond my scope of software understanding, but how do I put something into my MVP so that when my customers use it, I'm getting feedback, and they're getting feedback, that is solving their problem. I mean, we don't see a lot of MVPs that have the tools in them to validate that they've solved the problem, and that's one of the things that you want to do, because you don't – I mean, retention is certainly a validation that you're solving a problem, but it's not a proprietary knowledge type validation. And that's one of the things we're looking for in the investments is, are you building proprietary knowledge about your customer and their problem, and your ability to solve it that nobody else knows. Right? What do you know that nobody else knows? What do you know that nobody can read from the headline? What do you know that nobody can determine from just looking at your product? But because you've been able to put some hooks and some monitoring into your MVP, you're able to observe that and validate that, yeah, we actually do solve this problem. And sometimes it depends on what the pain point is for the customer, so if it's time, if it's money, if it's resource, those different things, how do you validate that I'm saving the customer time. Right? I mean, for something like that, you probably wouldn't be able to measure time in your application, in some way or another to confirm that, okay, my customer spent two minutes building this report, whereas, historically, they told me it took them five hours. And so, if I can measure that, that they took two minutes to build this report, and I can see that, okay, and they spent – they did 48 reports last month, then I know how much time I'm saving them, and I can kind of back into what is the value that we've created. And so, you have to think about that as you're designing your MVP right? Okay, what – because you're coming through this loop of I've got a problem I'm solving, okay, I'm going to put a solution in a minimum viable product; at the end of the day, I want to know, did I solve the problem, and, if so, does the customer know. And so, that's kind of a longwinded answer to your question, but that's one of the things that I see that I don't see a lot MVPs with closing that loop, but that's one of the significant values of running an MVP is to get that information.

Hall Martin: So a software, a full product has an installer and a help file, and it has all these other things that go with it, how do you shrink the this process down, so the MVP is a lighter, easier product to build and ship, or make available in some way, what are some key ideas to get this down so you don't have the heavy weight that comes with a full blown product shipping?

Jeff Eversmann: I think a big part of it is refining your focus to just, I'm just going to solve this problem, I'm not going to try and build a full product solution, because that full product solution has complexity in it that needs documentation and manuals and customer support teams, and all that kind of stuff. When you're in this loop of building out your MVP for a minimum viable category, you've got a very small team, and the last thing you want that team doing is building software manuals and complicate installation processes. Right? And so, you really got to strip everything away that is not needed to solve the problem and just focus on, okay – and it's the first time through the loop, right? So you're picking something, and it's got to be a balance, you're picking something that, first time through the loop, it's a problem that we're solving that we think is valuable enough for a customer to care about. And it's easy enough for us to do in a simple product. Right? Because if you create this huge problem that you want to solve that requires a complicated product solution, well, you're defeating the purpose of an MVP. You're essentially creating a product out of the door, and you don't want to do that.

Hall Martin: And so, how often do you see people take an MVP and then just put a price tag on it, put it on the website, and just start shipping it, because it seemed like it's good enough versus reengineering the final product from the ground up based on all the MVPs, what do you see people doing out there today?

Jeff Eversmann: There's a mix, I mean, there's the success stories, and if you listen to or you read about some of the success stories that are very well known, we look at them now and think that's a complete product, and we don't remember back when it was an MVP, and all the stuff that didn't work and frustrated us. Like, Netflix is a great example, because their MVP was to put a CD-ROM in, or a DVD in an envelope and mail it. That was their MVP. And then they just started building on that. What I typically see is they don't – startups won't confirm that the MVP solves the problem, they'll just add features because they think that's going to increase sales. Okay, I'm not getting the sales, let me add more features, or let me add more salespeople, or let me reengineer the script. And so, that's what I typically see, I don't typically see people iterating on an MVP, or defeaturing a product, if you will, to get back down to the basics of, maybe we launch something with too many features, we need to scale it back, drop the price, focus in on what kind of problem can we solve for the customer.

Hall Martin: And so, can you tell us a bit more about some of your experiences within MVPs with either portfolio companies or things you've seen in the industry that highlight what is a really good example of an MVP, and what was really bad example of an MVP?

Jeff Eversmann: I had to be careful of the bad examples. I do think, so we made a – I'll give you this one – an example of an MVP. One of our investments, they actually built their product within their previous company to solve a problem that they were experiencing, and they tested it and it worked, and it worked so well that they probably kind of experienced success in a way that got them out of their job, meaning that they made some other people look bad in the process. And so, it turned out that the company that they're at didn't really want to go after that space, and when they were moved into different departments, nobody continued to use this little product that they had created. And so, they then figured out, okay, how can we work with our company, because they're clearly not going to go after this, they don't even – the people that are left behind in this group don't even want to maintain it. And so, we want to start a company with it, and so, that was a great MVP experience, because they actually – they built something, they got it working for themselves within their job function, and then they got permission from the company that they're at to take it out, and then they went through some accelerators and figured out, okay, how do we – now that we're not in this captive closed environment, how do we create an MVP that is more generic that we can test out some of these different features. One of the ones that I've seen that was not good, it really comes from the angle of kind of that engineer approach where we know how to solve this problem with technology, we are in love with our product, and we are convinced that everybody else is in love with it as well. And so, they go in and they engineer a full solution without kind of confirming that, number one, the problem exists and, number two, that people are willing to pay for it. And so, that was one of the ones that shut down, and it's one of the things that we look for now is how in love with the product is the founder, because if they have too much love for the product, then we're concerned that they may not pivot when they need to.

Hall Martin: do you ever look at specific metrics? I mean, beyond churn that show up as red flags of no product market fit, are there any?

Jeff Eversmann: We don't – like, unfortunately, I don't have a list of metrics that I could say this is some of the things that we look at. I know there's some people working on that. We're not working on that right now. What we look at is what is the entrepreneur's knowledge about the problem, do they have something that's proprietary, or do they have kind of a superficial view of the problem that I could get the same view if I went out and read a few industry articles. And so, what we're looking for is entrepreneurs, like, again, if I go back to that one investment we made where these guys came out of a very large company, and they understood the problem very well, such that they had implemented it in a way or solved it in a way that they could – they actually knew how much money that they were saving the group by solving this problem. And so, they have proprietary knowledge about how to solve the problem. And so, if in the pitch deck, or, as we're working with entrepreneurs and we're going through due diligence, if the entrepreneur doesn't have proprietary knowledge, or doesn't have a way or plan of how to get that proprietary knowledge, then we will typically not invest and kind of move on to the next project.

Hall Martin: Would you classify that proprietary knowledge as a trade secret, and actually keep it as a trade secret, or is it just more of an insight?

Jeff Eversmann: Depending on how far you take it, it is a trade secret. It starts out as an insight, and as they put that insight into the product, it becomes a trade secret. I mean, there's probably a lot of features out there that we would look at and think, why is that in there. There could be two reasons, one, because the engineer thought it'd be a good issue or, two, because they understood the problem so well, they knew that they needed this for a specific segment. And so, I think those, when you get to the point of trade secret, that's where you've got a lot of value to go out and raise your next round. But, again, it goes back to I know, I have proprietary knowledge that I've built up on how to solve this problem, and how to build a tool to solve this problem. And, in the past, it used to be, I have proprietary knowledge about the technology, until I'm going to develop patent, I'm going to get it patented, and that's going to create some protection. I think in today's world, because you can patent some software processes, but you can't patent software directly, and so, you're going to build up proprietary knowledge and trade secrets by understanding the customer problem and the unique way in which you solve it.

Hall Martin:my last question is: is that an investment criteria you have that they have something equivalent to a trade secret, whether they classify it that way or not, that that's a key thing for you guys to make a go decision on?

Jeff Eversmann: It does help with making a decision. But, I mean, so we invest at such an early stage that sometimes we're investing with the anticipation that over the next six months, they're going to develop that trade secret or that proprietary knowledge, and that's the case where I see an entrepreneur is really passionate about the problem that they're solving, as opposed to the product that they're creating. And so, by being passionate about the problem in the way they talk about the customer and the way they interact in the process, there's a hope that by going down that path in six months to nine months, they're going to have that proprietary knowledge that's going to just kind of lead them into the next round.

Hall Martin: So you think a first mover advantage is something that you prioritize and what you're looking at, Jeff?

Jeff Eversmann: No, so we sometimes invest in followers, but that being said, we passed on investments where they're not first movers, and it's going to depend on how far ahead is the market leader, or the first mover, if you will. Because there's first movers that may be going at about the problem the wrong way, and so you could come in and say, okay, well, that would be a great way to pitch an investor, and say, okay, well, company A is out there, they've raised $50 million, but here's where we think they're wrong, and here's why we think they're wrong, here's the conversations we've had with customers, here's the interactions we've had in solving this problem, and here's why we think our solution is better and how we're going to overtake Company A. That's the right conversation to have as opposed to I think what we typically see is, okay, here's company A, here's company B, here's company C listed in a matrix with everybody's list of features, and we've got checkmarks next to all ours and company A, B, and C are missing some, and so we're a better solution, because we've got more features available. That to me that says you're focused on the product, and you may not understand the customer better than company A, which has a first mover advantage.

Hall Martin: Did you have any closing comments you want to make before we go ahead and finish off the session today?

Jeff Eversmann: I will. So a lot of these concepts are based on, as I've said throughout this talk that lean startup concepts, a lot of great books out there about lean startup, and some of the early work by Geoffrey Moore on Crossing the Chasm, and Inside the Tornado, and also, the more recent work by Bruce Cleveland on the Traction Gap. And so, I think there's a lot of great books out there, one of the challenge for entrepreneurs is which book do I read, because I don't have a lot of time in which one applies to my problem. And so, I mean, feel free to reach out if you feel stuck in any way, and you're thinking, maybe Jeff's read a book that applies here, or maybe a 15-minute discussion with Jeff can help us get back on track, and I'm happy to have those conversations.

Hall Martin: Great. Well, I appreciate your joining us today, Jeff, with this great information.

Jeff Eversmann: Thanks Hall.