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Disciplined Entrepreneurship

24 Steps to a Successful Startup

THE SUMMARY IN BRIEF

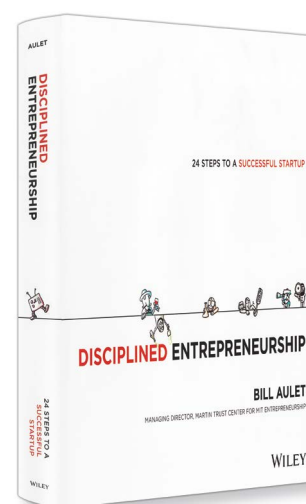
Interest in entrepreneurship is exploding globally, yet many people believe that entrepreneurship cannot be taught — that those who become successful were born with something others lack. But the greatest entrepreneurs — Richard Branson, Steve Jobs, Bill Gates and all the others — really had just one thing in common: They made great products.

Disciplined Entrepreneurship offers a comprehensive, integrated and proven step-by-step approach to creating innovative, highly successful products. It focuses on the iterative process that marches you toward that optimal, elegant solution — the foundation for your whole business. Whether you're creating a physical good, a service or the delivery of information, *Disciplined Entrepreneurship* breaks down the necessary processes into 24 steps that any industrious person can learn.

As the world becomes more complex and the problems become more urgent, the need for entrepreneurs will only grow. This framework will allow intrepid entrepreneurs to quickly and efficiently find their way toward the best solutions. Whether you're a first-time or repeat entrepreneur, *Disciplined Entrepreneurship* offers the tools you need to improve your odds of making a product people want and need to buy.

IN THIS SUMMARY, YOU WILL LEARN:

- To create valuable specificity by focusing on one market opportunity that you can dominate.
- To quantify the unique value you bring to your target customer — and how to translate that value into profit.
- To design and build your product in the most efficient way possible.
- To overcome common obstacles in getting your product adopted by customers.
- To identify and test key assumptions.



by Bill Aulet

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THE COMPLETE SUMMARY: DISCIPLINED ENTREPRENEURSHIP

by Bill Aulet

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Introduction

There are many misconceptions about what entrepreneurship is and what is required to be an entrepreneur. The first myth is that individuals start companies. While the entrepreneur as a lone hero is a common narrative, a close reading of the research tells a different story. Teams start companies. Importantly, a bigger team actually adds to the odds of success. *More founders = better odds of success.*

The second myth is that all entrepreneurs are charismatic and that their charisma is a key factor in success. In fact, while charisma may be effective for a short period, it is difficult to sustain. Instead, research shows that more important than being charismatic, entrepreneurs need to be effective communicators, recruiters and salespeople.

The third myth is that there is an entrepreneurship gene, that certain people are genetically predisposed for success in starting companies. Some believe personality traits like flamboyance or boldness are correlated with successful entrepreneurship, but that line of thought is misguided. Instead, there are real skills that increase the odds of success, such as people management, sales skills, product conception and delivery. People can adapt and learn new behaviors, and entrepreneurship therefore can be broken down into discrete behaviors and processes that can be taught. ●

Getting Started

No matter how you have become interested in entrepreneurship, you need to start by first answering the following question: *What can I do well that I would love to do*

for an extended period of time? Once you have answered this question, you will have taken the first step toward discovering a customer pain — a pain that you are interested in alleviating because it is in line with what you are interested in and have expertise in. Once you've identified an idea or technology as a basis for your innovation-driven business, you must rigorously test and flesh out your proposal through the 24 Steps.

The 24 Steps are discrete and can be grouped into six themes. In each step, you will learn things that will prompt you to revise the work you have done in earlier steps. These themes present a general outline of how the 24 Steps will help you create a sustainable, innovation-based business. ●

Who Is Your Customer? (Steps 1,2,3,4,5,9)

Step 1: Market Segmentation

Begin the 24 Steps by taking your idea or technology and brainstorming a wide array of potential customers who might be interested in some application of it.

Start by brainstorming a wide array of market opportunities. Include even the “crazy ideas” that you think are longshots because they are helpful in expanding the boundaries of possibilities to where some of the most interesting opportunities might exist.

Identify potential industries for your idea. Focus on end users, not customers, because you will need a committed



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group of end users to have a sustainable business. For example, a school doesn't use a textbook, or a chalkboard, or a lesson plan, but teachers do. Next, identify the different tasks your end user performs.

Once you've identified numerous potential end users and applications for your idea, your next task is to list the top 6-12 particularly interesting market opportunities, where a market opportunity consists of a specific end user and one or a handful of applications.

After you've narrowed your market opportunities, it is time for primary market research. Talking directly with customers and observing customers will help you get a better sense of which market opportunity is best. Because you are identifying a new market opportunity for a product that does not yet exist, you will not be able to rely on Google searches or on research reports from research firms. *If there is already a market research report out there with all the information you need, it is probably too late for your new venture.*

Instead, you will gather the vast majority of your information from direct interaction with real potential customers about their situations, pain points, opportunities and market information. Unfortunately, there are few shortcuts in this process. While you should find out what you can about customers and markets before you talk to potential customers, it is impossible to overstate the importance of doing direct customer research, as any other sources of information and knowledge are frequently superficial and likely of minimal value.

Once you gather your primary market research, organize it. The main categories you are trying to obtain information on for each market are

- 1. End User:** Who specifically would be using your product?
- 2. Application:** What would the end user be using your product for?
- 3. Benefits:** What is the actual value that the end user would gain from the use of your new product? Is it a time savings? A cost savings? Additional profit?
- 4. Lead Customers:** Who are the most influential customers that others look to for thought leadership and adoption of new technology? These are sometimes referred to as "lighthouse customers" because they are so respected that when they buy, others look to them and follow their lead, gaining you instant credibility.
- 5. Market Characteristics:** What about this market would help or hinder the adoption of new technology?
- 6. Partners/Players:** Which companies will you need to work with to provide a solution that integrates into the customer's workflow?

7. Size of the Market: Roughly, how many potential customers exist if you achieve 100 percent market penetration?

8. Competition: Who, if anyone, is making similar products — real or perceived? Remember, this is from the customer's perspective and not just yours.

9. Complementary Assets Required: What else does your customer need in order to get full functionality from your product? You will likely need to bundle your product with products from other manufacturers so that customers can easily buy your product and have full functionality.

The goal of the research is not to provide a perfect solution, but to present a wide spectrum of market opportunities as you start to think about where you will focus your business.

Step 2: Select a Beachhead Market

Select one market opportunity from your top 6-12 markets to pursue as your beachhead market: Ignore the other markets. A beachhead market is where, once you gain a dominant market share, you will have the strength to attack adjacent markets with different offerings, building a larger company with each new following.

A key determinant of success for entrepreneurs is their ability to select a market and to stay disciplined by deselecting other markets.

It is better to avoid selecting the largest or very large markets, even if they seem like the "best" segments. The first market you attack will be a significant learning experience for you, so you are better off learning in a smaller market where you can quickly get high exposure among the base of potential customers.

You want to start in a market where you have great ability to dominate in a relatively short time period; a narrow, focused market is the best way to do so.

Choose a single market to pursue; then, keep segmenting until you have a well-defined and homogenous market opportunity that meets the three conditions of a market:

1. The customers within the market all buy similar products.
2. The customers within the market have a similar sales cycle and expect products to provide value in similar ways.
3. There is "word of mouth" between customers in the market, meaning they can serve as compelling and high-value references for each other in making purchases.

These three criteria for defining a market mean that you will get efficiencies of scale in the market and you have

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a good chance to do that magical thing that all startups want, “to go viral.”

Step 3: Build an End User Profile

It is critically important that you recognize that to be successful, you must build your business based on the customer you are serving, rather than pushing onto the market the product or service you want to sell.

Each customer actually consists of an end user and a decision-making unit. The end user is the individual (a real person!) who will use your product. The end user is usually a member of the household or organization that purchases your product. The decision-making unit is the person who actually decides whether the customer will buy your product. There are three types of decision-making units:

- *Champion*: the person who wants the customer to purchase the product; often the end user.
- *Primary Economic Buyer*: the person with the authority to spend money to purchase the product. Sometimes this is the end user.
- *Influencers, Veto Power, Purchasing Department, and so on*: people who have sway or direct control over the decisions of the Primary Economic Buyer.

In this step, you will build a profile of the end user that is specific enough for calculating the Total Addressable Market size of your beachhead market. Your focus will be on the end user, because if the end user does not want your product, you will be unable to reach your customer.

Your goal is to create a description of a narrowly defined subset of end users with similar characteristics and with similar needs. You do not want to spend your time and resources trying to be everything to everybody.

Some potential characteristics to include in your end user profile are gender, age range, income range, geographic location, what motivates them, what they fear most, who is their hero, what they read, and the general reason they are buying this product.

If you don't have someone from the demographic already on your founding team, you should hire a target end user for your executive team.

Your analysis of your target customer is nowhere near complete, but the End User Profile points you in the right direction for further steps.

Step 4: Calculate the Total Addressable Market (TAM) Size for the Beachhead Market

Defining your beachhead market and End User Profile provides you with enough specificity to make a first-pass calculation of the Total Addressable Market (TAM) size for the beachhead market. The TAM for your beachhead mar-

ket is the amount of annual revenue, expressed in dollars per year, your business would earn if you achieved 100 percent market share in that market.

To calculate the TAM, first determine how many end users exist that fit your End User Profile using a bottom-up analysis based on primary market research. Then, complement this with a top-down analysis to confirm your findings. Often very important subtleties are missed in a top-down analysis only, so you need both. Then, determine how much revenue each end user is worth per year. Multiplying the revenue per end user by the number of end users will give you the TAM as dollars per year.

You are looking for a market that is big enough for you to get to critical mass, develop key capabilities, and get to cash-flow positive in the market. However, if the market is too big, you will likely not have sufficient resources to compete. The goal of this exercise is not to impress others with a big number, but to develop a conservative, defensible TAM number that you have faith in.

Step 5: Profile the Persona for the Beachhead Market

The Persona is a person who best represents the primary customer for the beachhead market. The Persona you are creating is of one end user from one potential customer who best exemplifies your End User Profile. The process of defining a Persona for your beachhead market makes your target customer tangible so that all members of the founding team, and all employees, have absolute clarity and focus on the same goal of making your target customer successful and happy.

No one end user represents 100 percent of the characteristics of every end user in your End User Profile. But as you work toward defining the Persona, you will be able to find someone who matches the profile quite well. You will then focus your product development around this individual, rather than on the more-general End User Profile.

This process is important, so you should involve all the key members of your team, regardless of their role in the group.

Prepare a fact sheet about the Persona, based on the information you already have. You will typically want to include information about the person's life as well as the person's job. All this information should be specific — not just that they make a five-figure salary or live in the north-eastern part of the country, but that they earn \$65,000 a year and live in a specific town. By preparing a fact sheet, your team will also identify key facts specific to your business that you will want to include in order for the Persona to be useful to you. In your fact sheet, you will use the end user's real name or you can use an alias instead.

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Most importantly, you want to list the Persona's Purchasing Criteria in Prioritized Order, as these priorities will dictate what purchasing decisions the Persona makes. It is crucial to understand how your customer prioritizes their needs and wants.

Creating the Persona is more than just an exercise. The Persona should become a touch point as you think about decisions going forward. What features should you prioritize? Drop? How should you allocate resources? Once the Persona is done, it will help guide all kinds of decisions and create a consistent vision throughout the company.

The better you understand your Persona's needs, behaviors and motivations, the more successful you will be at making a product and a new venture to serve them. Once you have made a picture or visual of your Persona and fleshed out the fact sheet, make it all visible within your business so that everyone works toward the same goal.

Step 9: Identify Your Next 10 Customers

While it is important to identify and develop a Persona to represent your end users, you must also be sure to identify other potential customers to ensure your product's success. This will dramatically increase your confidence that you have identified a scalable opportunity, not just a one-customer solution, as well as your credibility.

- List more than 10 potential customers, and include any pertinent information you have about them from your existing research.
- Contact each of the potential customers on your list, and present your Full Life Cycle Use Case, High-Level Product Specification and Quantified Value Proposition (Steps 6-8). Be sure to stay in "inquiry" mode during these conversations and not to slip into "sales/advocacy" mode.
- If a customer validates your hypotheses from the previous steps, now is a good time to ask the customer if they would consider providing a letter of intent to buy your solution, once it is available. You are still in "inquiry" mode, so you're just asking.
- If a customer's feedback is not aligned exactly with your assumptions, take good notes and think how this affects your analysis.
- Now that you have contacted each customer, you may have new data. At this point, you can go back and modify your earlier assumptions and determine whether to contact additional customers.
- If you find that you cannot create a list of 10 customers who are excited about your High-Level Product Specification, then you may need to reconsider your beachhead market.

While this step is conceptually simple, contacting customers and getting information from them will require a good amount of work but will be invaluable as you move forward. Do not share this list of customers or the information you gather with others outside your company. ●

What Can You Do For Your Customer? (Steps 6,7,8,10,11)

Step 6: Full Life Cycle Use Case

Now that you have assembled great specificity about your end user and are focused on your target customer, you have to collect equally specific details about how this person will use the product. You must describe in detail steps such as how your Persona finds out about your product, acquires it, uses it, gets value from it, pays for it, and buys more and/or tells others about it.

The Full Life Cycle Use Case should be visual, using diagrams, flowcharts or other methods that show sequence. Creating a visual representation of the full life cycle of your product enables you to see how the product will fit into the customer's value chain and what barriers to adoption might arise. Just showing how the customer uses the product will not provide an accurate enough picture to fully understand what obstacles will come up when trying to sell your product to your target customer. This expanded use case is important for identifying and resolving problems in the most timely and cost-effective manner.

Step 7: High-Level Product Specification

Now you will start creating a general definition of the product. You will continue to learn more and to refine this product definition over the remaining steps.

A High-Level Product Specification is, at its core, a drawing. It is a visual representation of what your product will be when it is finally developed based on what you know at this point of the process. It is something you draw without understanding all the underlying details, but which gains consensus within your team on where you are going.

Visually laying out your product will allow your team and your potential customers to converge around an understanding of what the product is and how it benefits customers. Staying at a high level, without too many details or a physical prototype, allows for rapid revision without investing too much time and resources this early in the process. A brochure with features, function and benefits to the customer further clarifies your product offering and is a great complement to the pictures you create.

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Step 8: Quantify the Value Proposition

Your Quantified Value Proposition converts the benefits your Persona gets from your product into a tangible metric that aligns with the Persona's top priority or, in some cases, priorities. In a simple view of the world, benefits fall into three categories: "better," "faster" and "cheaper." The goal of the Quantified Value Proposition is to clearly and concisely state how your product's benefits line up with what your customer most wants to improve.

The Quantified Value Proposition is framed by the top priority of the Persona. You first need to understand and map the "as-is" state in a way familiar to the customer, using the Full Life Cycle Use Case. Then, map out the "possible" state of using your product, clearly indicating where the customer receives value based on the Persona's top priority. A visual, one-page diagram is best, because the customer can easily see the Quantified Value Proposition and can show it to others for validation. When done well, this will be of immense value to you throughout the process of launching your business, so extra effort spent to get this optimized is well worth it.

Step 10: Define Your Core

Now you will start looking to the future by determining what about your business makes you special, what your "secret sauce" is.

The Core is something that allows you to deliver the benefits your customers value with much greater effectiveness than any other competitor. You are looking for that single thing that will make it very difficult for the next company that tries to do what you do. A few examples include

- **Network effect:** If this is your Core, you become the standard by achieving so much critical mass in the marketplace that it does not make sense for potential customers to use another product. Essentially, this means the value of the network to any individual on that network is exponentially related to the number of users on that network. The company with the most users is the most valuable. Examples of businesses that achieved this are eBay, LinkedIn and Facebook.
- **Customer Service:** By establishing processes and culture that focus on excelling at customer service, this potential core allows you to retain customers at a very high rate as compared to competitors and thereby avoid costly churn. Visible examples of this are Zappos, Warby Parker, Nordstrom and Commerce Bank.
- **Lowest Cost:** Another Core you may pursue is to develop the skills, relationship, processes, volumes, financial overhead and culture to out-compete anyone else in

the market on cost and become the long-term low-cost player. Wal-Mart is a good example of this Core.

- **User Experience:** There are a multitude of new strategies that have evolved into potential Core strengths, and a common one now is user experience (UX). The strategy here would be to become the best at developing and continually improving the UX through the company's emphasis on it. Clearly, this has been Apple's Core as it produces products that leverage the company's capabilities and commitment to an insanely great user experience.

Defining the Core is the first step where you spend a lot of time looking internally, in contrast to the strong customer focus of many of the other steps. The Core is what you have that your competitors do not, what you will protect over time above all else, and what you continually work over time to develop and enhance.

Step 11: Chart Your Competitive Position

A Competitive Positioning Chart helps you to show visually how you fulfill your Persona's top two priorities versus how well your competition does so. The goal is to show that your Competitive Position both leverages your Core and that your product satisfies your Persona's priorities far better than existing or logical future products. If both of these are not true, you may need to revisit your market selection or your Core.

Defining your Competitive Position is a quick way to validate your product against your competition. This is also a very effective vehicle to communicate your qualitative (not quantitative) value proposition to the target customer audience in a way that should resonate with them. ●

How Does Your Customer Acquire Your Product? (Steps 12,13,18)

Step 12: Determine the Customer's Decision-Making Unit (DMU)

You must now look at how the customer acquires the product. To successfully sell the product to the customer, you will need to understand who makes the ultimate decision to purchase as well as who influences that decision. The Champion and the Primary Economic Buyer are most important, but those holding Veto Power, as well as Primary Influencers, cannot be ignored. B2B situations are easier to map out, but the process is still important in a consumer situation; large consumer goods companies like Procter & Gamble have been doing this process for many years.

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Step 13: Map the Process to Acquire a Paying Customer

The following items from the Full Life Cycle Use Case (Step 6) will be the basis for mapping the process to acquire a paying customer: how customers will determine they have a need and/or opportunity to move away from their status quo; how customers will find out about your product; how customer will analyze your product; how customers will acquire your product; how customers will install your product; how customers will pay for your product.

Determining the Process to Acquire a Paying Customer defines how the DMU decides to buy the product, and identifies other obstacles that may hinder your ability to sell your product. From elongated sales cycles to unforeseen regulations and hidden obstacles, selling a product can sometimes be far more difficult than simply meeting the Persona's needs. This step makes sure you have identified all the potential pitfalls in the sales process.

Step 18: Map the Sales Process to Acquire a Customer

In this step you must develop short-term, medium-term and long-term sales strategies for your product. Mapping the sales process is a thoughtful first pass at how you will enter the market, refine your sales strategy over time, and ultimately establish an inexpensive long-term strategy for customer acquisition. The sales process includes creating awareness, educating the customer, and handling and processing the sale. The sales process drives the Cost of Customer Acquisition (COCA), one of the variables — along with the Lifetime Value of an Acquired Customer — that shows your business's profitability. ●

How Do You Make Money Off Your Product? (Steps 15,16,17,19)

Step 15: Design a Business Model

Entrepreneurs often spend a disproportionately small amount of time on their business model. The track record shows that companies that spend time and effort on innovative business models can see enormous payback. As a new business, you will have many options for business models, but it is very difficult to change a business model once you have established a base of customers. Use the work you have done in other steps to brainstorm an innovative model for your venture. The decisions you make will have a significant impact on your profitability. Choose

a business model that distinguishes you from competitors and gives you an advantage over them.

Step 16: Set Your Pricing Framework

With a business model in hand, you can now make a good first estimate on your Pricing Framework, understanding that it will likely change as you continue through the 24 Steps. This step is the beginning of a pricing process because you will likely end up with multiple price points and pricing strategies, and you will iterate as you experiment and get feedback from the market about price points. Whereas your Business Model is much less likely to change, price points are often subject to change based on market conditions. Your goal for the moment is to create a first-pass strategy that will allow you to calculate the Lifetime Value of an Acquired Customer, which along with the Cost of Customer Acquisition is an important variable that indicates the profitability of your business. Pricing is primarily about determining how much value your customer gets from your product and capturing a fraction of that value back for your business.

Step 17: Calculate the Lifetime Value (LTV) of an Acquired Customer

The LTV calculation along with the COCA calculation will help you determine how profitable your business will be in the beachhead market. The LTV serves as the most fundamental checkpoint both to determine how viable the business is and to make sure you clearly understand what will drive the sustainability and profitability of the business so that you stay focused going forward. It is important to be realistic, not optimistic, when calculating LTV and to know the underlying drivers behind LTV so you can work to increase it. You will be comparing the LTV to the COCA. An LTV:COCA ratio of 3:1 or higher is what you will be aiming for.

Step 19: Calculate the Cost of Customer Acquisition (COCA)

Next, you must determine how much it costs to acquire a customer over the short term, medium term and long term, based on your sales process. An effective way to calculate an accurate COCA is to tabulate your aggregate sales and marketing expenses over a period of time; then divide that by the total number of new customers you acquire within that time period. Since your COCA will vary over time as your sales process changes and your organization is in the learning curve and you develop strong positive word of mouth within your target customer group, you should calculate it over time. I recommend three time periods in order to show how the COCA is trending. ●

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How Do You Design & Build Your Product? (Steps 20,21,22,23)

Step 20: Identify Key Assumptions

Determine which assumptions about your business have not been thoroughly tested. Identifying key assumptions is the first part of the process to validate your primary market research by looking for customers to take specific actions. Before the assumptions can be tested, they need to be broken down into their component parts so that each assumption represents a specific, narrow idea that can be empirically tested.

Step 21: Test Key Assumptions

Once you've identified the key assumptions, it is often not hard to test them. The goal is to gather empirical data that either supports or disproves your assumptions. Testing these prepares you well to sell your product because it complements the primary market research-based approach you have already taken. The convergence of your market research with empirical results from your experiments prepares you to put together a first-pass product and sell to customers.

Step 22: Define the Minimum Viable Business Product (MVBP)

The Minimum Viable Business Product (MVBP) sets you up to test that customers will pay for your product. There are three core elements necessary to have a MVBP. All three must be present for this step to be successfully completed. They are: 1) the customer gets value out of the product 2) the customer pays for the product 3) the product is sufficient to start the customer feedback loop, where the customer can help you iterate toward an increasingly better product. Your MVBP should balance simplicity with sufficiency.

Step 23: Show That “The Dogs Will Eat the Dog Food”

Now, take your MVBP, put it in front of your target customer, and test whether this integrated system of assumptions will be accepted and paid for by your target customer. Collect data to see if they are really using it and how engaged they are as users. Make sure you are intellectually honest and rely on real-world data and not abstract logic. ●

How Do You Scale Your Business? (Steps 14, 24)

Step 14: Calculate the Total Addressable Market Size for Follow-on Markets

You should be able to identify at least five or six follow-on markets. There are two types of follow-on markets. One involves selling the same customer additional products or applications, which is often referred to as upselling. The second market, and the path often taken by innovation-based startups, is to sell the same basic product to “adjacent markets,” which are markets similar to your beachhead. The challenge is that you will have to establish new customer relationships in each adjacent market, which can be risky and expensive. You can pursue either strategy or a mixture of the two after dominating your beachhead market.

The Calculation of the Broader TAM should be a quick validation that there is a bigger market and should reassure team members and investors that your business has great potential in both the short term and long term.

Step 24: Develop a Product Plan

Establishing a Product Plan is to get you thinking ahead so you raise your sightlines and don't get too bogged down in your beachhead market. Plans will change as you learn more from the beachhead, but to not have a plan is to put yourself in the hands of luck as opposed to your own methodical process.

Entrepreneurship is not a spectator sport. Historically, it has been the intrepid spirit and skill of the entrepreneur that has come up with the best solutions for the world's problems. Hopefully, this framework will make you more successful as you put it into action. ●

RECOMMENDED READING LIST

If you liked *Disciplined Entrepreneurship*, you'll also like:

1. ***Disciplined Dreaming*** by Josh Linkner. Linkner shows how to create profitable new ideas, empower all your employees to be creative, and sustain your competitive advantage over the long term.
2. ***The Pumpkin Plan*** by Mike Michalowicz. Michalowicz shares his unique step-by-step approach to grow a business that he has used to transform his own company into a multimillion-dollar industry leader.
3. ***Flash Foresight*** by Daniel Burrus. Burrus provides an easy-to-implement blueprint for applying strategies to your business that will enable you to see the invisible and do the impossible.