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THE TRACTION METHOD FOR RESEARCH-BASED STARTUPS

HOW TO BALANCE SOFT FUNDING,
CUSTOMERS, AND PRODUCT DEVELOPMENT

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1. INTRODUCTION & SUMMARY

Do you have an innovative idea that takes 1-10 years to fully develop? Are you uncertain about how to finance this extended development period? Would you like to explore (soft) financing options further?

If you can answer yes to at least two of the above questions, then this mini-guide is tailor-made for you.

This brief guide will demonstrate how you can successfully juggle between product development while securing financing for the various stages of the development. The guide also places a significant emphasis on understanding your target audience, as it is crucial both for you and the fund you are applying to. You must be able to convince the fund that there is a market for your product.

The guide follows a logical progression, beginning with the emphasis on placing your product development at the right stage. This is crucial as it provides the fund with a clear understanding of your progress, and where you are now.

The guide then proceeds to explore the interest of your potential customers. This is important as it provides the fund with insights into whether there are potential customers willing to purchase your solution or not.

The guide emphasizes in this matter how you can effectively work with a narrow target audience to kickstart your customer base with the most accessible prospects. This is crucial, as many entrepreneurs make the mistake of being too broad in their target audience definition.

At the end, we wrap up with an overview of which soft funds are available at the various stages of product development.

2. KEY TAKEAWAYS FROM THE GUIDE

LIFECYCLE OF YOUR PRODUCT DEVELOPMENT

01.

- Consider your project over an extended period
- Utilize the Technology Readiness Scale (TRL) to describe the journey

USER AND CUSTOMER COMMITMENT

02

- Build relationships with customers step by step
- Ensure customer dialogue as a risk mitigation strategy

BEACHHEAD MARKET - START SMALL AND SHOWCASE THE JOURNEY

03.

- Focus on a smaller, more homogenous group
- Use the Beachhead approach to achieve product-market fit

DIFFERENT FUNDS FOR DIFFERENT STAGES

04.

- Understand which funds are available at different stages
- Target your message accordingly

IMPORTANT NOTE

It is essential to emphasize that this guide is exclusively focused on product development and soft funding. The guide fundamentally suggests that as long as you have an innovative idea, and can argue and document why the market is ready to implement your solution, you have a good chance of obtaining funding.

It is crucial to note that funds also assess other parameters beyond just innovation and customer potential. These could include whether your team has the skills to succeed or whether the competition is deemed too significant, among others. This guide does not take these factors into account. It also does not consider the work involved in both applying for and managing funding.

3.

LIFECYCLE OF YOUR PRODUCT DEVELOPMENT

When applying to a fund, it's essential to take a helicopter view of your startup and consider your project over an extended period. You need to demonstrate your ability to understand where you are currently and what steps you need to take in the future to develop your product. This provides the fund with a sense that you have a plan in place. The worst thing you can do is appear without a plan.

The most commonly used method for determining the maturity of your project is to refer to the Technology Readiness Scale (TRL). TRL is employed by both industry and public institutions to assess technology readiness. TRL levels can vary from one industry to another. The model chosen in this guide is tailored to the commercialization of academic research.

When applying for soft funding, it is advantageous to use some terms from the scale to help the panel evaluating your application quickly recognize your project's stage. For example, if you are in the research stage, you could write in your argumentation:

'We have conducted research and validated our idea from various sources, leading to the development of an experimental version of our product. We now need to create an early prototype. We are seeking YXZ funding to develop an early prototype.'

This makes it easy for the fund to understand how far you have progressed. In the next sections, we will delve further into expanding this argument.

TLR: Technology readiness levels

The Technology Readiness Levels (TRL) are a standardized scale to assess the maturity of technology/innovation. It is widely adopted by industry and public institutions alike.

TRL descriptions vary – this one fits the commercialization of academic research.

TRL Phase	TRL Level	TRL description	Pharma: Corresponding drug discovery/clinical trial phase
Idea	0	You have an unproven and untested concept	Basic research
	1	You have observed the basic principles but you have no evidence	
Research	2	You have described the concept and you know how to validate it	<ul style="list-style-type: none"> • Target identification • Target validation
	3	First laboratory tests completed – you have experimental proof of concept	<ul style="list-style-type: none"> • Lead compound discovery • Lead compound optimization
Prototype	4	You have tested an early prototype in the laboratory with satisfactory results	<ul style="list-style-type: none"> • Lead compound validation • Preclinical studies
	5	Your prototype is more refined and functions in the intended environment	Investigational New Drug (IND) application // Phase 0
Validation	6	Your prototype works close to expected performance in the intended environment	Phase 1
	7	You can demonstrate a fully functional system in the operational environment	Phase 2
Production	8	All technical processes to support commercial activity are ready – you can manufacture the final solution	Phase 3
	9	Your technology is generally available for all customers	Regulatory approval // Product launch // Market monitoring

4.

USER AND CUSTOMER COMMITMENT

In a manner similar to the TRL scale, user and customer dialogues can be categorized into stages that can provide both you and the panel with an understanding that you have engaged with customers and are developing something with genuine market demand.

The most commonly used scale is known as the Customer Commitment Level (CCL). In entrepreneurial courses, we often emphasize the importance of building connections with your customers. However, for early-stage companies, especially those operating within the B2B (business-to-business) sector, the path to closing a deal involves multiple stages.

Therefore, we train our startups in gradually building stronger bonds with customers, step by step, with the ultimate goal of generating revenue and securing funding.

Ensuring customer commitment throughout the various stages of product development ultimately serves as a risk mitigation strategy, ensuring that you invest your efforts in a product that someone is eager to purchase. Additionally, customer commitment serves as a valuable indicator for soft funds and other potential investors because it assures them that your business is targeting a product with strong market demand.

Taking the example from earlier, your argumentation would now sound like this:

'We have validated our idea with XYZ customers and, based on their feedback, developed an experimental version of our product. Customers have expressed that they want XYZ to be included in the solution before it creates value for them. We are seeking YXZ funding to develop what customers are demanding, allowing us to create a final prototype ready for production and implementation with XYZ customers.'

In addition, you should ensure that you have documentation to support this, turning the customer's statements into a 'letter of intent.' Refer to the figure below. You can also do the same with expert opinions, research articles, or data you have generated yourself, such as through focus group interviews with a specific target audience.

Securing this support from potential customers can seem daunting for young and perhaps inexperienced entrepreneurs. Nevertheless, it is a natural progression that ensures you create something the market desires and, importantly, saves your own time by dedicating it to a project validated by the market.

The first step involves approaching the intended individual or company. Be precise and simplify the process for them. You may consider drafting a document for them to review and sign if they agree with the content. In certain cases, especially at CCL levels 1-4, it can be beneficial to suggest keeping them informed about the ongoing development of the project. Lastly, ensure it is clear that the initial letter does not entail any binding commitment.

In some situations, it is possible to take a customer from stage 1 to stage 7 without involving other partners or experts. This naturally requires strong sales, communication, and relationship-building skills.

However, if the customer is enthusiastic about your idea and has the resources, there is no reason they should not be willing to support the conceptualization and prototyping. In such scenarios, you can propose an agreement where they provide resources such as test facilities, test subjects, or even launch the product (on an exclusive basis) together, ensuring immediate market access for your product as soon as it is ready.

It is worth discussing a pre-defined agreement that provides incentives for the customer to invest resources, whether those resources are hours, facilities, or financial means.

How to generate and document customer commitment

Development stage	Customer commitment: What you need to generate	Customer commitment: Why you need to generate it
LEVEL 8-9: System complete, ready for production	Purchase order	Actual buying orders from customers with real delivery time, payment terms and project deliverables.
LEVEL 6-7: Prototype demonstration LEVEL 4-5: Prototype validation	Letters of support	Actual buying orders from customers with real delivery time, payment terms and project deliverables.
LEVEL 2: Conceptualization LEVEL 3: Experimentation	<ul style="list-style-type: none"> • Letters of intent from customers • Letters of support from research faculties • Letters of intent from Key Opinion Leaders • Letters of intent from Market experts • User data you have generated yourself • Test data you have generated yourself • Field research you have generated yourself 	These are more direct evidence ranging from potential customers to the data you have generated yourself. This directly confirms the value of your proposition.
LEVEL 1: Idea and research	<ul style="list-style-type: none"> • Research articles • Professors or researchers approving your idea • Public data • Legislation that changes market conditions • Newspaper articles • Key Opinion Leader statements • Letters of intent from suppliers • Letters of intent from business partners 	Gaining indirect evidence of customer need from a solution like yours

5.

BEACHHEAD MARKET - START SMALL AND SHOWCASE THE JOURNEY

Once you have established your understanding of your product's development stage and the necessary steps to secure funding at each stage, it becomes crucial to plan your startup's launch strategy. Instead of aiming to conquer the entire world with your product, it is more advantageous to focus on a smaller, more homogeneous group. In this section, we will explore why.

When founders present their ideas to potential soft funds and pre-seed investors, they often make critical mistakes regarding their target audience. They tend to emphasize the vast size of the market and throw around terms like Total Available Market (TAM), Service Available Market (SAM), or Service Obtainable Market (SOM). While these terms have their merit, they should only serve as an initial introduction in your presentation. Investors prioritize measurable progress because they prioritize investing in entrepreneurs who can execute daily jobs.

The market size is certainly not insignificant, but it is a long-term goal that lies a decade into the future, and it's that difference in time perspective that you need to grasp.

Every soft fund or investor knows that the startup journey is long, and that you must start small to scale later. Therefore, you should focus on your smaller and more homogeneous target audience, and your daily task is then to prove that you can convince this initial audience. If you can convince your initial audience, you have a much higher chance convincing a fund or investor. Only after that should you move on to the next target audience.

Understanding the 'Beachhead' concept is crucial for achieving product-market fit. It encourages founders to allocate all their resources to a single, narrowly defined segment with an urgent need for their product. This pressing need typically arises because the segment is in growth and expansion, and there is currently no satisfactory solution in place.

Is the Beachhead concept revolutionary? Not really. In fact, it's quite straightforward. Its uniqueness lies in the ability to understand and work with smaller segments while gradually building a larger presence.

Implementing the Beachhead approach is simple but requires a mindset shift for some. It involves discarding your previous beliefs. You must transition from thinking 'I'm conquering the world' to 'I will conquer XYZ customer by reaching out to XYZ person and getting that XYZ person to become a test customer.'

The rationale behind this change is clear: you need to focus on a single, homogeneous segment to deliver a flawless product. In other words, you need to abandon the idea of conquering the world and instead offer a unique product tailored to specific individuals, specific companies, specific problems, and specific use cases.

While the logic behind the approach is simple, many fail to align their beliefs with the advice. The primary belief is that investors only support grand ambitions. As a result, many founders describe their market in the broadest terms possible. Here, you must again return to the concept of different time frames. When investors talk about large billion-dollar markets, they are referring to markets a decade from now. But when they advise founders to focus on a Beachhead, they mean the next six months. And thus, we come full circle to the initial point that emphasizes the need to focus on tangible progress.

In relation to the earlier example, your argumentation would now sound like this:

“We have validated our idea with XYZ customers and, based on their feedback, developed an experimental version of our product. Customers have expressed that they want XYZ to be included in the solution before it creates value for them. We are seeking XYZ funding to develop what customers are demanding, allowing us to create a final prototype ready for production and implementation with our customers. We have chosen these customers as they represent the best starting point for our launch. In the long run, we aim to expand our coverage to XYZ segments of the market. However, it is crucial for us to start with a narrow target audience to ensure that we gather customer data, build reference cases, and to immerse ourselves into the customer experience. The data from our initial customers will ultimately be used as evidence to secure additional funding for scaling, and to refining our product.”

Understanding that Rome wasn't built in a day is simple but still incredibly valuable. It is valuable because it shows the investor that you can think long-term, but more importantly, that you can reason what the smartest path forward is.

6.

DIFFERENT FUNDS FOR DIFFERENT STAGES

TRL and CCL are models and do not have intrinsic value. These models serve their purpose in evaluating a startup. Therefore, it is essential that you understand what soft funds and investors expect, so you can work purposefully to attract funding and get your product off the ground.

The Beachhead Market is not just a concept but a method for building your customer base. While soft funds and investors applaud the approach, it's crucial to emphasize that it's also for your benefit. By engaging with your customers and starting with a narrow, homogeneous target audience, you ensure that you create something that people actually end up buying.

Once you've figured out how to communicate with the funds, it's about embarking on the journey. You'll undoubtedly learn a lot along the way and improve over time. The following provides an overview of examples of funds available at different stages.

Feel free to explore them to see what they expect from you.

Soft funds at various levels

Technology Readiness Level (TRL)	Examples of soft funds	Important success criteria
LEVEL 1: Idea and research	<ul style="list-style-type: none"> • Innoexplorer • FFE Micro Grant • Venture Cup • BII Futures Grant, • EarlyCash • Miljø- og Energifonden 	Important success criteria are to describe your early research and innovation.
LEVEL 2: Conceptualization LEVEL 3: Experimentation	<ul style="list-style-type: none"> • Innofounder • Alexander Foss' Industrifond • Otto Mønstedts Fond • Otto Bruuns Fond • Axel Muusfeldts Fond • BETA.HEALTH 	Important success criteria are to describe your impact, team and market feedback.
LEVEL 4-5: Prototype validation LEVEL 6-7: Prototype demonstration	<ul style="list-style-type: none"> • Innobooster • Innomissions • BII Venture Lab • Miljøteknologisk udviklings og demonstrationsprogram (MUDP) • Grønt udviklings- og demonstrationsprogram (GUDP) • Eurostars 	Important success criteria are to describe your business partnerships, project planning and business impact.
LEVEL 8-9: System complete, ready for production	By now, you have advanced to sales, licensing or the private investment market.	Important success criteria are to describe your commercial and operational goals.

**“WE HELP YOU BUILD THE
STARTUP OF YOUR DREAMS”**

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