

create a new product incubation unit, staffed by some 100 employees from marketing and R&D. "These were disciplines that never spoke to each other," he recalls. "At our Evansville [Indiana] headquarters the marketing people were in a building on one side of a four-lane road, and the R&D people were on the other side. No one ever crossed that road, except to eat lunch."

In accepting the assignment, Dickinson got permission to take over and renovate one floor of unused space in an old industrial building. He hired an architect to implement his vision of an open design in which communication and collaboration between marketing and R&D specialists would naturally occur. There would be no private offices, no cubicles. To further set the incubator apart from the rest of the company, he had the place painted in bright colors. Quotations by famous inventors adorned the walls. White boards and games were set out here and there to encourage interaction. A basketball hoop was mounted on a far wall. A phone booth was installed at the back of the space. "I told people that if they *really* needed to have a private conversation, they could use the phone booth."

The success of this interdisciplinary product incubator changed Dickinson's life in two important ways. First, it made him realize how much he enjoyed breaking free of corporate rules and routines, and building new things from scratch. Second, it led to an important new assignment. In 1998, he was asked to move to Boston and help initiate a novel kind of venture capital firm, jointly invested in by Bristol Myers Squibb (parent of Mead Johnson) and General Mills. Consumer health and wellness would be its investment focus. Dickinson recalls how that experience broadened his understanding of innovation, different business models, and the management challenges faced by young and inexperienced entrepreneurs. "I spent a lot of time helping the CEOs of these companies, particularly in the marketing area." He enjoyed sharing his knowledge with these CEOs and helping them with market development. "In many cases, I wished that I was them!" And, in 2001, he became the CEO of his first start-up, a biotechnology company initially incubated within Harvard Medical School.

Dickinson's background brought him into the sights of Zeo's headhunter in late 2006. He offered two unique qualities that Zeo needed: experience in developing, launching, and marketing consumer health products, and an open, mentoring personality. For Dickinson's part, Zeo represented an outlet for his entrepreneurial instincts.

Meetings between Dickinson, the founders, and Zeo's key investors were encouraging. The candidate met all of Zeo's expectations, and Dickinson liked what he saw in the venture and its principals. "You could see that these guys were insatiable learners, hungry for experience and knowledge. They were eager to learn from everyone—from people like me, from investors, and from their advisory board. There was no youthful arrogance."

It was a match. After doing due diligence on the venture and its technology, and in return for a reasonable salary and an equity stake vested over time, Dickinson joined the company as CEO in February 2007.

Beyond SmartWake

By the time Dave Dickinson joined the company, the team had raised over \$1 million dollars around its SmartWake™ concept. With Dave now wearing the CEO cap, Eric could turn his full attention to the job of prospecting for additional investment capital and expanding Zeo's strategic connections for business development. Jason's focus would remain on potential customers: Who were they? What were their needs in a sleep product? How would they connect with Zeo and its evolving technology?

Ben's engineering training made him the logical person to handle product development. This would be no small job. The technology had to be capable of accurately sensing and

monitoring sleep without all the paraphernalia and personal assistance needed in conventional sleep laboratories. It had to be affordable to the average consumer, and so simple that an untrained customer could operate it correctly. And it had to provide a scientifically valid measure of an individual's sleep. More than one sleep-specialist expert declared that meeting all of these requirements was impossible.

Undeterred, Eric, Jason, and Ben thought they had a solid venture concept in SmartWake™. If people understood their sleep cycles and awakened themselves at an optimal point (outside of deep sleep), they would be more rested and alert. And they would be happy with Zeo. Ben's work, bolstered by John Shambroom's background and expertise, would soon give them the technology they needed to make that happen. By early 2007, he had a working prototype that Jason could test on focus group participants. Those participants, mostly college students and young professionals, responded favorably to the prototype and to the proposition of waking refreshed and on the ball. They had little interest or curiosity about their sleep stages, as recorded by the prototype. However, test subjects who represented the broader population sent the team a disturbingly different message: They had sleep issues that SmartWake™ failed to address.

*The product said it took me 43 minutes to fall asleep. What can I do to get to sleep faster?
I wake up at around 2 A.M. and cannot get back to sleep. How can I change that?
Your device says that I get about one hour of deep sleep at night. Is that good or bad? What does it mean for my performance at work?*

People wanted answers to these and other questions, and they wanted *solutions* to their sleep problems. The crucial question was: *What can I do to get a better night's sleep?*

Feedback from potential customers revealed the limited nature of Zeo's initial value proposition. Sleep was a big issue for many people—it affected their relationships, health, and performance on the job, at school, and on the athletic field. Hundreds of companies, from pill makers to pillow and mattress manufacturers, were touting the importance of a good night's rest. Knowing the optimal time to wake up—the SmartWake™ proposition—was merely a small part of a much bigger issue. "SmartWake™ was attractive to the 30-and-under crowd," says Jason, "but that part of the total market was small compared to the people who were experiencing real pain because of their sleep patterns. Not waking up at the optimal time was nothing compared to the problems people experienced by not getting a good night's sleep—problems with drowsiness, their relationships, job performance, health, and so on."

The opportunity was clearly broader than initially conceived. But addressing it would require one big thing: practical and personalized solutions to common sleep difficulties. Recalls Jason, "We weren't sure that we had the expertise to help people sleep better. We wondered if this was too high a mountain to climb." Indeed, climbing that mountain would require at least another year of work—maybe two. As things stood, the company did not have enough cash to fund another year or more of development. Could more be raised? The initial product launch was scheduled for mid-2007. Would current investors agree to deferring that planned launch if it meant building a better product? Should they launch the product in its current state, and then develop an improved Zeo Version 2.0?

After much discussion, it was clear that the intelligent wake-up proposition would satisfy a market segment that was too small, given the expectations of the founders, their advisors, and investors. Quantitative testing with focus group participants (using product concept testing methodology introduced by Dave) confirmed the appeal of the product concept with sleep improvement capabilities. They also feared disappointment by customers. "We had no choice," says Jason, "but to step up to the larger concept. We might not have a real business otherwise." After seeing the market-testing numbers, Zeo's investors agreed.

Enter Venture Capital

Recognizing that their expanded value proposition would require substantial new capital, the team went back to its angel investors, including those who, because of oversubscription on the previous round, had not been able to participate. "But we quickly learned," says Eric, "that this approach would take too much time and was unlikely to produce the level of funding we needed." They decided to go after larger pools of capital, namely, venture money. "This is where our board members really helped with advice and introductions." iRobot founder Colin Angle introduced them to people at iD Ventures America, a quality venture firm that had financed his venture. iD Ventures led the company's Series B round, closing in 2008, even as the world financial system poised on the verge of collapse. Many deals were canceled during this period, but Zeo's went through. A later Series C round of financing, led by Trident Capital, closed in 2009, bringing total capital raised by Zeo to \$14 million.

Zeo now had sufficient capital to exploit the large opportunity it had found and to hire the people it needed to scale up for commercial operations and launch.

The Go-to-Market Product

To fulfill its larger aims, the company had to develop both a more sophisticated sleep phase tracking product *and* an online, personal "sleep coach." Part educational tool, part motivational program, the go-to-market product Zeo would offer what potential customers had clearly asked for: a product package that revealed the user's sleep patterns, and an online coach that would help each customer discover the habits and behaviors that interfered with his or her night's rest. An interactive "7-Step Sleep Fitness Program"—which took a full year to develop—would teach users how to overcome sleep-robbing habits and behaviors. At launch, the final package (Exhibit 6.2) included the following:

- **A soft, lightweight headband containing Zeo's SoftWave™ sensor technology.** Worn during the night with the sensor against the forehead, this device accurately tracks the user's sleep patterns and transmits the data wirelessly to a bedside receiver/display. Unlike traditional methods of tracking sleep patterns, the sensor connects to the skin without gels or adhesives thanks to a unique patent-pending material developed by the company. (Tests-rated tracking results are comparable to the gold standard for assessing sleep.)
- **Bedside display unit.** The size of a clock radio, the bedside unit receives data transmitted from the headband sensor. Algorithms and artificial intelligence software determine the user's sleep phases throughout the night. A sleep graph summarizes each night's sleep stages. A "ZQ" score gauges the quantity, quality, and depth of each night's sleep. In addition, the user can see at a glance his or her total sleep time, how long it took to fall asleep, how often and how long he or she was awakened, and the total amounts of REM, light, and deep sleep.
- **Access to the personalized 7 Step Sleep Fitness™ Program.** This online coaching program analyzes the user's unique sleep patterns and lifestyle, and then recommends techniques for addressing factors that may be negatively affecting sleep. The program also provides regular assessments of user's sleep statistics to help track progress.
- **The SmartWake™ Alarm feature.** The headband sensors search for a natural awakening point—the optimal time to get out of bed in the morning, when the user transitions into and out of REM sleep and the brain is more active. The bedside unit's alarm will sound as early as a half hour before the user's set wake-up time, but never later than that time.