



LEAN STARTUP PRINCIPLES

# Module 1 Readings



1 HR

# AVOIDING WASTED TIME AND WASTED EFFORT

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“Lean” is a mindset and a set of methods initially created to help companies learn faster and eliminate waste. In this course, we’ll explore how anyone who is starting something new in the social sector can use Lean methods. Read through the following 4 scenarios to get a sense of the types of situations that might benefit from a Lean approach. Think about whether you’ve encountered similar situations.

**Karuna** looks at the stack of beautiful, handwoven saris piling up in her office. Two months ago, she quit a career in the banking sector and started a new social enterprise to support rural women. She wanted to become a conduit between villagers and larger markets, selling the saris that they hand-produced to higher-end customers in cities. The goal of her enterprise was to return a large share of the profits to the village women to improve their livelihoods. Karuna had commissioned a large quantity of saris from the village women, but when she tried to sell them to luxury stores in Indian cities, shopkeeper after shopkeeper told her that they were too similar to other products that they already had in stock. Furthermore, they said that their customers were looking for lighter-weight saris instead of the ornate woven designs produced by the village women.



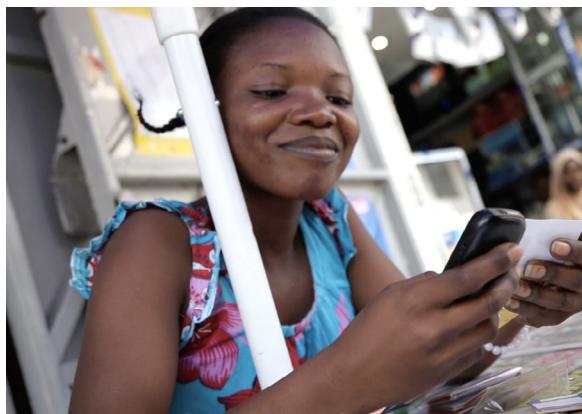
Two months later, Karuna looks at the inventory of products piling up in her office, and realizes she is not earning the profits she needs to generate income for the rural women. Her cash stores are running out, and she still hasn’t achieved her desired social impact. What could she have done differently?

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**Frank** works at a large international development organization in Washington D.C. His non-profit has just been awarded a grant to train students from Sudan on science and engineering. This is a brand new initiative, and Frank needs to design an entire curriculum. He consults with experts from multiple universities about potential topics to include in the curriculum and then writes lengthy training manuals. He has all of these manuals finalized and printed before he even speaks with any of the Sudanese students for the first time. When the Sudanese students arrive, Frank quickly realizes that they are already familiar with many of the concepts introduced in the first module. It becomes apparent that he spent months preparing curriculum that is not relevant to the needs of the Sudanese students, and they will likely find the program boring. How could he have avoided this situation?

**Zainab** is a recent college graduate living in northern Nigeria. She realizes that many young people in her community are not gaining the necessary skills to join the workforce. Wanting to remedy this situation, she decides to start a social enterprise dedicated to offering business training to young people. She raises funds and invests a great deal of cash to rent a large community center, refurbish it, and buy



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supplies for activities. Many young people gather for the opening day of the center, but then their attendance slowly starts to taper off as the weeks go by. Zainab realizes that the building she has rented is out of the way of the route that many of the young people take to get home from school, and they slowly end up dropping out of her program. How could she have avoided making this costly up-front investment that ultimately did not serve her social enterprise?

**Justine** has worked for several years in the marketing department of a large company when she is suddenly transferred to the Corporate Social Responsibility division. She is charged with redesigning the volunteer programs that her company offers to employees. Thrilled that she can build something new within an existing company, she jumps into the work, quickly hiring a web development firm to help her rebrand and rebuild the volunteer website. She works for nearly 8 months with a team of engineers to create the new volunteer site, but when it finally launches, only 8% of the employees log in.

Justine finally decides to talk to some of the employees about why they are not using the portal. Many explain that they are already committed to other volunteer or community activities, such as coaching their kids' sports



teams or caring for elderly neighbors. They don't have time to commit to other activities organized by their employer. Justine recognizes that there is a misalignment between what she thought the employees would want, and how they actually behave. How could she have avoided all of those wasted hours of design and engineering work?

## REFLECTION

- + What do these situations have in common?
- + How do you think they could have been avoided?
- + Have you ever experienced something similar? If so, why do you think you had that experience?

# WHAT ARE LEAN STARTUP PRINCIPLES?

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We think that Karuna, Frank, Justine and Zainab all could have been more efficient and more effective if they used Lean Startup principles. What does this mean? According to Steve Blank, one of the pioneers of the Lean Startup movement in Silicon Valley, a Lean approach has 3 distinct characteristics:

1. It favors experimentation over elaborate planning.
2. It prioritizes customer feedback over intuition.
3. It emphasizes iterative design over traditional “big design up front” development.

(Steve Blank, “[How the Lean Startup Movement Changes Everything](#)”)

Where did these ideas come from? For many years, experts counseled aspiring entrepreneurs to carefully craft a business plan. Business plans allowed a team of entrepreneurs to present what looked like a well-formulated articulation of their value proposition to potential investors. Yet, Steve Blank, Eric Ries, and other leading thinkers in Silicon Valley realized that although a plan for a new mobile app or a disruptive startup might look great on paper, when the products were actually put on shelves

or made available for download, customers didn’t buy them, or they responded in unexpected ways.

“as Lean practices spread,  
they’re turning the conventional  
wisdom about entrepreneurship  
on its head.”

—Steve Blank

Many startup teams waste countless hours and money building a product or service that is misaligned with the market. In fact 75% of startups end up failing, according to a 2012 Harvard study.. Eric Ries and Steve Blank believed that these failures could happen more quickly, or be avoided altogether, if they tried new approaches.

Eric decided to adopt principles from the Lean manufacturing movement (practiced by successful companies like Toyota in Japan) and apply them to the companies they were working with in Silicon Valley. Essentially, he advocated quickly building something, measuring whether it worked, learning from your results, and then deciding whether to pivot and change your idea entirely, or persevere with your current solution.

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There has also been a recent push to apply these mindsets and methods to the social sector. Innovative nonprofits and social enterprises have been asking themselves how they could build products or services more quickly and operate with less wasted time and effort. Leanne Pittsford and others have started the Lean Impact movement, which provides [useful resources](#). In 2015, Steve Ma and Peter Murray published an excellent article on "[The Promise of Lean Experimentation](#)" in the Stanford Social Innovation Review.

This course will offer a series of readings to translate methods from the tech sector to the social sector, and think about the important ethical considerations

when dealing with real people and real social issues. Each module will also be accompanied by a workbook that will offer you a series of step-by-step exercises to start applying Lean methods to your own work.

*"The Lean Startup method teaches you how to drive a startup—how to steer, when to turn, and when to persevere—and grow a business with maximum acceleration."*

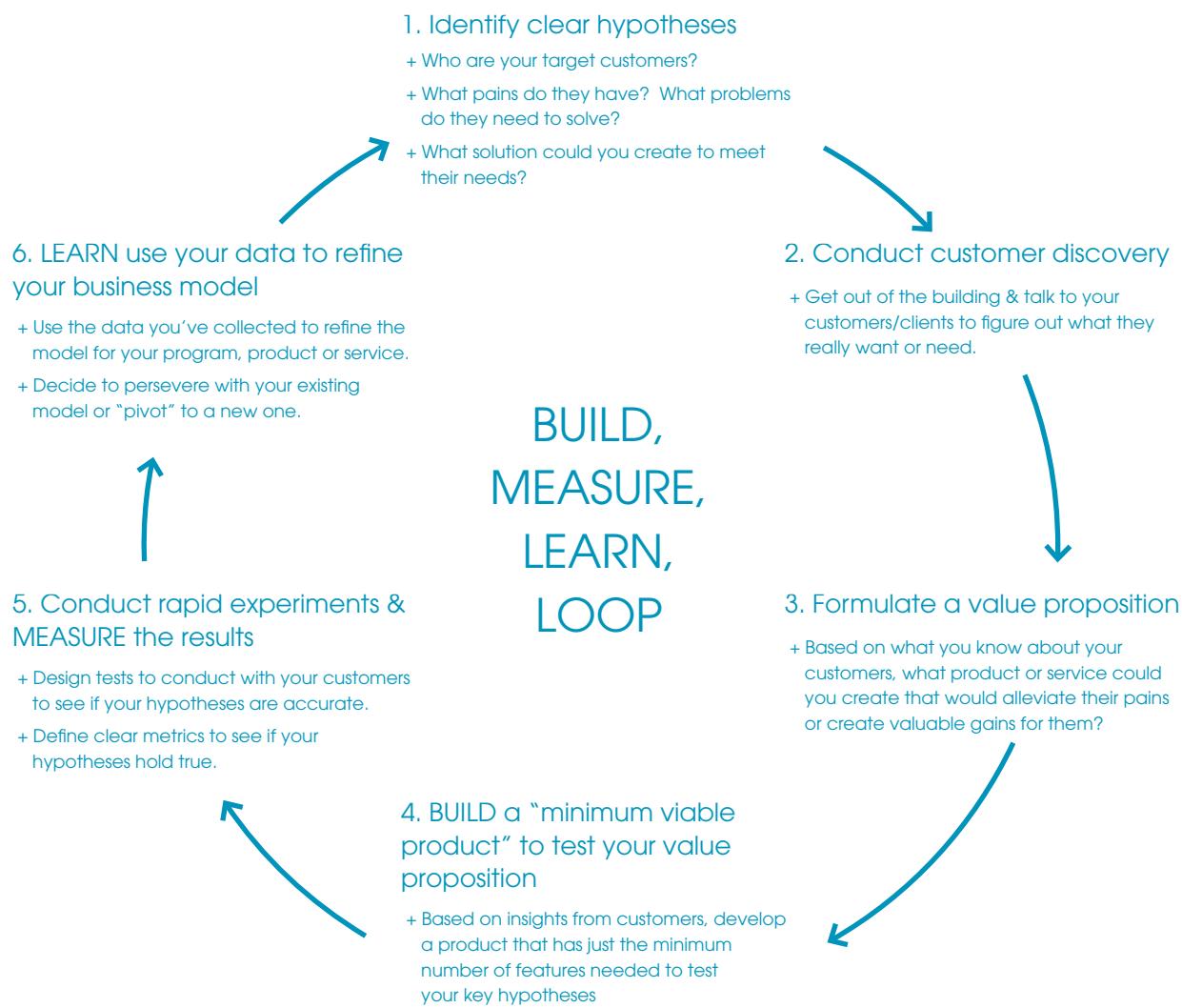
—Eric Ries



# THE BUILD-MEASURE-LEARN LOOP

The Lean Startup principles are particularly suited to anyone who wants to launch something new. Although you can apply Lean methods to refine or reevaluate existing processes or systems within your organization or enterprise, they are best for helping you build and refine the model for a new program, service or product from

scratch. Below is the sequence that the Lean process usually follows, and that we will walk you through in this course. Eric Ries refers to this as the “Build—Measure—Learn” loop. Don’t worry if some of these terms are unclear to you now. We’ll walk through each stage in subsequent modules.



# WHAT LEAN DOES DIFFERENTLY

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How does a Lean approach differ from a standard approach? The following chart summarizes how we think a “lean” social sector could operate vs how the “traditional” social sector typically functions.

## Lean Social Sector

- + Business Model
- + Theory of Change
- + Hypothesis-Driven
- + Talk to people and figure out what they need
- + Build a product or program iteratively and incrementally
- + Hire for learning, nimbleness, and speed
- + Collect only the metrics that can inform key decisions
- + Failure is expected
- + Fix by iterating on ideas and pivoting on ones that don't work
- + Move quickly
- + Operate on “good-enough” data

## Traditional Social Sector

- + Business Plan or Strategic Plan
- + Monitoring and Evaluation Plan or Logic Model/Logframe
- + Implementation Driven
- + Respond to RFP in line with donor specifications. Fully specify the plan for the program or product before building or implementing.
- + Hire for experience and ability to execute
- + Collect exhaustive data
- + Failure is an exception
- + Fix by firing people, pulling funding, or covering up in reports to donors
- + Move at a measured pace
- + Operate on complete data

This is based on a chart developed for traditional businesses in Steve Blank's article: "[How the Lean Start Up Changes Everything](#)"

# LEAN PRINCIPLES FOR THE SOCIAL SECTOR

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When Jacqueline Novogratz was founding Acumen, one of her mentors gave her a piece of advice that still guides the work of everyone at Acumen today. The mentor said:

**"Just start. Don't wait for perfection. Just start and let the work teach you. No one expects you to get it right in the very beginning, and you'll learn more from your mistakes than you will from your early successes anyway. So stop worrying so much and just look at your best bets and go."**

These sentiments align with the Lean methodology and explain in part why Acumen is so excited about helping the social enterprises we work with implement a Lean approach. "One of the biggest failures of our sector is that we don't think about learning quickly," says Sasha Dichter, Acumen's Chief Innovation Officer, "We spend a lot of time building something that we think is perfect without ever letting that product interact with customers."

To make Lean work in the social sector, we realize that a mindset shift will have to occur. Many foundations and donors require

non-profits or social enterprises to forecast detailed projections of how they will spend money and manage program activities over the course of a long funding cycle. There is little room for testing things in small batches or iterating as you go along.

This creates a vicious cycle. Worried that donors or investors will pull their funding if they do not follow the exact specifications of an original proposal, organizations are often hesitant to make any adjustments, even if they learn new things from customers or clients along the way. This leads to stilted innovation, under-realized impact or, even worse, negative unintended consequences.

Although several forward-thinking funders have moved away from this "five year plan" mentality, it is still commonplace to see requests for detailed project plans that leave little room for "pivoting" or, even more taboo, failing during the course of the funding cycle. Acumen champions Lean methods because embedding quicker cycles of learning is key to continued innovation. If the social sector really is going to tackle persistent problems of poverty, we need new approaches that will enable us to "learn at the edge." We think Lean can be one such approach.

# BARRIERS TO LEAN IN THE SOCIAL SECTOR

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You already might be thinking, ‘But wait, there is no way that Lean principles could work in my company!’ Maybe these objections are already popping up in your head:

- + “My organization has so many layers of hierarchy. We couldn’t test anything quickly because everyone would have to sign off first and that would take weeks.”
- + “Donors are paying us for successful outcomes. We can’t afford to try new things and risk failure.”
- + “We can’t run experiments when we are dealing with real people and vulnerable populations.”

We know that introducing Lean Principles can require a cultural shift. Take 5 minutes to jot down a list of the barriers you might face. Then, as you take this course, look for examples of other organizations or enterprises that faced similar circumstances and overcame them. Keep your eyes open for new ideas about how you can introduce this culture of failing & learning fast.



# WHAT THE LEAN STARTUP IS NOT

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Before we move on with the course, it can help to clear up a few common misconceptions. Some people use the term “Lean” in a misguided way, particularly in reference to the non-profit sector. People will joke that, because they operate in an environment where budgets are tight and resources are scarce, they are implementing “Lean methods” by default. Not so.

Lean methods are intended to eliminate waste, but they are not something you fall into using just because your organization operates in a resource-scarce environment. “Lean” is not equivalent to “frugal” or “cost-constrained.” Instead, it is a very deliberate process that you must choose to execute, to the degree that Eric Ries, the founder of this movement, calls it “scientific.”

Additionally, while you can embed a “Lean mindset” into a currently operating organization—for example, by going out and talking to your customers about something new you want to try—Lean methods are more of a continuous cycle, rather than “a la carte” offerings that you can pick and choose. As mentioned before, Lean is best for generating new business or program models, rather than just tweaking a part of an existing one.

## A LITMUS TEST FOR LEAN

Use these questions to help you determine if you are implementing a Lean approach:

- + Did you start by clearly articulating hypotheses about what your product, service or program will do?
- + Did you get out of the building and talk to real customers or clients?
- + Did you build a minimum viable product that includes only the essential features you want to test?
- + Did you design experiments to test your hypotheses and have clearly defined metrics to evaluate whether your experiments worked?
- + Did you make a deliberate choice to persevere or pivot with your existing model?

Not sure what all these terms mean yet? Not to worry. We’ll explore concepts like hypotheses, minimum viable products, experiments, metrics and pivots in much more detail in later modules.

# WHAT THIS COURSE WILL OFFER

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There are many great books, courses and tools out there that will teach you the Lean methodology generally. We'll build upon them in this course, but recommend that you check them out yourself if you want to learn more about the Lean Startup movement as it has been conceived of and adopted by the Silicon Valley tech community. Here are a few we particularly recommend:

- + [The Lean Startup](#) by Eric Ries
- + [Steve Blank's blog](#)
- + [Steve Blank's Udacity course](#)

This course from +Acumen will be grounded in these frameworks and principles, but will push you to think about applications in the social sector. While methodologies designed for engineers in Silicon Valley have some degree of transferability, people trying to implement a validated learning approach in the slums of Nairobi or rural villages of Bangladesh or a youth center in Baltimore will face different challenges than the engineers in Silicon Valley who are often (at least initially) testing products with relatively homogenous user populations.

When using Lean in the social sector there are also important ethical considerations to take into account and it can be helpful to learn from people who are tackling related issues.

This course will give you an overview of the key mindsets needed to adopt a Lean approach, along with practical tools and frameworks to get started and case studies from others in the social sector working to grapple with complex issues.

Frequently, the Lean method involves taking your hypotheses and carefully organizing them using a tool called *The Business Model Canvas*, which was developed by Alex Osterwalder. Keep in mind that this course will not go into the specifics of the Business Model Canvas, but instead expose you to the overarching principles of a Lean methodology. If you're interested in moving forward with charting and testing your hypotheses, +Acumen has another course on Business Models for Social Enterprises where you can explore the Canvas in greater detail.