Lean Startup

What Entrepreneurs Get Wrong

B-plan rarely survive first contact with customers

- **Efficacy:** Skeptical about the ability of new products to deliver on their value propositions

- **Credibility:** doubts on the founder's age, gender, personal background, or experience level

- **Size:** Turnover of the company

- **Price:** stemmed from prospects' incomplete, biased, or subjective cost/benefit analyses

- **Switching costs:** Prospects might need to modify their routines, procedures, systems, or internal or external relationships

Source: Onyemah, V., Pesquera, M. R., & Ali, A. (2013). What entrepreneurs get wrong. *Harvard Business Review, 91*(5), 74-79.
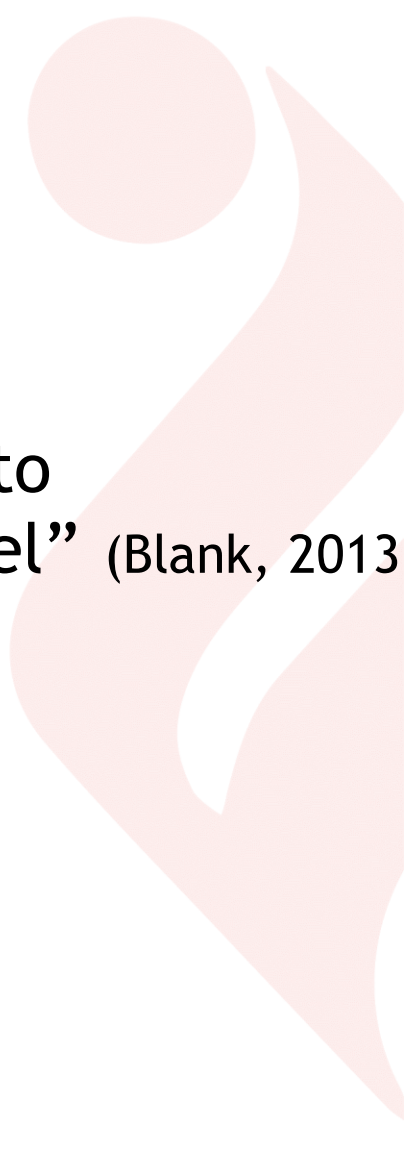
Result

75 % of the startups failed

-HBS Shikhar Ghosh

Source: Blank, S. (2013). Why the lean start-up changes everything. *Harvard Business Review, 91*(5), 63-72.

A new methodology for launching companies, called

"lean start-up",
has begun to replace the old regimen

"A temporary organization designed to search for a repeatable & scalable business model" (Blank, 2013)

Fail cheap, fail fast & learn from it

To avoid costly failures later on

Be firm about problem, but flexible about solution

- Idea generation and refinement
- Test the idea
  - Improve it
  - Or drop it
- Finalize the idea
- Product Execution
  - Prototype
  - Minimum Viable product

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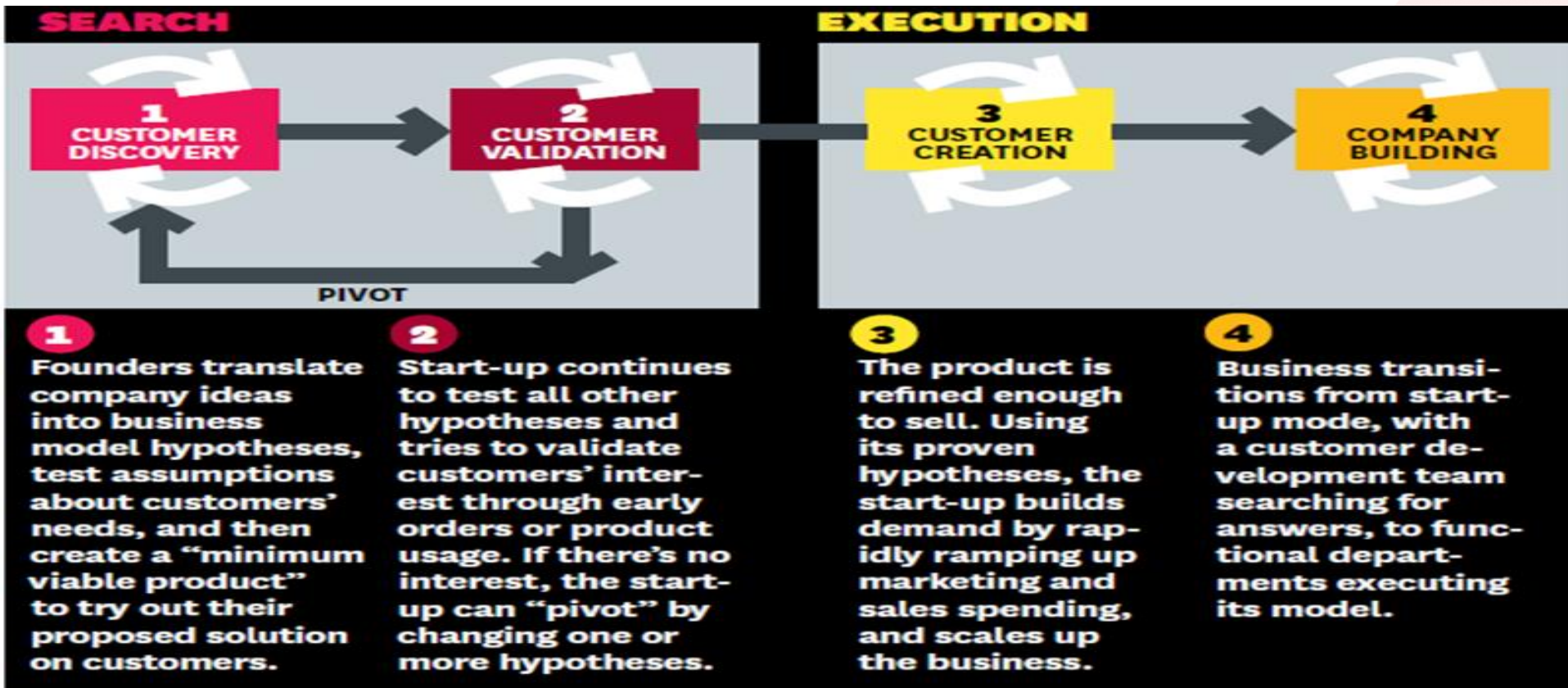
Key principles of lean method

- Customer feedback (users, purchasers and partners) on all elements of:
- Business models (features, pricing, distribution channel, and customer acquisition platforms).
- Iterations (small adjustments) or Substantive (Pivots) to failed ideas.

SEARCH **EXECUTION**

| 1 CUSTOMER DISCOVERY | 2 CUSTOMER VALIDATION | 3 CUSTOMER CREATION | 4 COMPANY BUILDING |

PIVOT

1 Founders translate company ideas into business model hypotheses, test assumptions about customers' needs, and then create a "minimum viable product" to try out their proposed solution on customers.

2 Start-up continues to test all other hypotheses and tries to validate customers' interest through early orders or product usage. If there's no interest, the start-up can "pivot" by changing one or more hypotheses.

3 The product is refined enough to sell. Using its proven hypotheses, the start-up builds demand by rapidly ramping up marketing and sales spending, and scales up the business.

4 Business transitions from start-up mode, with a customer development team searching for answers, to functional departments executing its model.

- Since customer feedback is more important than secrecy as it yields better results,
  the start up should avoid the stealth mode of operation
  after they have taken few baby steps

- Getting advice is not an insult to one's knowledge.

- Ideas don't get copied as much as one thinks

Strategy

Business Model	Business Plan
Hypothesis-driven	Implementation-driven

New-Product Process

Customer Development	Product Management
Get out of the office and test hypotheses	Prepare offering for market following a linear, step-by-step plan

Engineering

Agile Development	Agile or Waterfall Development
Build the product iteratively and incrementally	Build the product iteratively, or fully specify the product before building it

Organization

Customer and Agile Development Teams
Hire for learning, nimbleness, and speed

Departments by Function
Hire for experience and ability to execute

Financial Reporting

Metrics That Matter
Customer acquisition cost, lifetime customer value, churn, viralness

Accounting
Income statement, balance sheet, cash flow statement

Failure

Expected
Fix by iterating on ideas and pivoting away from ones that don't work

Exception
Fix by firing executives

Speed

Rapid
Operates on good-enough data

Measured
Operates on complete data