Startup & Venture Capital Book CheatSheets

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The Founder’s Dilemma

by Noam Wasserman

Harvard Business Review

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Every would-be entrepreneur wants to be a Bill Gates, a Phil Knight, or an Anita Roddick, each of whom founded a large company and led it for many years. However, successful CEO-cum-founders are a very rare breed. When I analyzed 212 American start-ups that sprang up in the late 1990s and early 2000s, I discovered that most founders surrendered

management control long before their companies went public. By the time the ventures were three years old, 50% of founders were no longer the CEO; in year four, only 40% were still in the corner office; and fewer than 25% led their companies' initial public offerings. Other researchers have subsequently found similar trends in various industries and in other time periods. We remember the handful of founder-CEOs in corporate America, but they're the exceptions to the rule.

Founders don't let go easily, though. Four out of five entrepreneurs, my research shows, are forced to step down from the CEO's post. Most are shocked when investors insist that they relinquish control, and they're pushed out of office in ways they don't like and well before they want to abdicate. The change in leadership can be particularly damaging when employees loyal to the founder oppose it. In fact, the manner in which founders tackle their first leadership transition often makes or breaks young enterprises.

The transitions take place relatively smoothly if, at the outset, founders are honest about their motives for getting into business. Isn't that obvious, you may ask. Don't people start a business to make pots of money? They do. However, a 2000 paper in the *Journal of Political Economy* and another two years later in the *American Economic Review* showed that entrepreneurs as a class make only as much money as they could have if they had been employees. In fact, entrepreneurs make less, if you account for the higher risk. What's more, in my experience, founders often make decisions that conflict with the wealth-maximization principle. As I studied the choices before entrepreneurs, I noticed that some options had the potential for generating higher financial gains but others, which founders often chose, conflicted with the desire for money.

The Trade-Off Entrepreneurs Make

Founders' choices are straightforward: Do they want to be rich or king? Few have been both.

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ExhibitTitle The Trade-Off Entrepreneurs Make

ExhibitCaption Founders' choices are straightforward: Do they want to be rich or king? Few have been both.

The reason isn't hard to fathom: There is, of course, another factor motivating entrepreneurs along with the desire to become wealthy: the drive to create and lead an organization. The surprising thing is that trying to maximize one imperils achievement of the other. Entrepreneurs face a choice, at every step, between making money and managing their ventures. Those who don't figure out which is more important to them often end up neither wealthy nor powerful.

Inside the Founder's Mind

Founders are usually convinced that only they can lead their start-ups to success. "I'm the one with the vision and the desire to build a great company. I have to be the one running it," several entrepreneurs have told me. There's a great deal of truth to that view. At the start, the enterprise is only an idea in the mind of its founder, who possesses all the insights about the opportunity; about the innovative product, service, or business model that will capitalize on that opportunity; and about who the potential customers are. The founder hires people to build the business according to that vision and develops close relationships with those first employees. The founder creates the organizational culture, which is an extension of his or her style, personality, and preferences. From the get-go, employees, customers, and business partners identify start-ups with their founders, who take great pride in their founder-cum-CEO status.

New ventures are usually labors of love for entrepreneurs, and they become emotionally attached to them, referring to the business as "my baby" and using similar parenting language without even noticing. Their attachment is evident in the relatively low salaries they pay themselves. My study of compensation in 528 new ventures set up between 1996 and 2002 showed that 51% of entrepreneurs made the same money as—or made less than—at least one person who reported to them. Even though they had comparable backgrounds, they received 20% less in cash compensation than nonfounders who performed similar roles. That was so even after taking into account the value of the equity each person held.

Many entrepreneurs are overconfident about their prospects and naive about the problems they will face. For instance, in 1988, Purdue University strategy scholar Arnold Cooper and two colleagues asked 3,000 entrepreneurs two simple questions: "What are the odds of your business succeeding?" and "What are the odds of any business like yours succeeding?" Founders claimed that there was an 81% chance, on average, that they would succeed but only a 59% probability of success for other ventures like their own. In fact, 80% of the respondents pegged their chances of success at at least 70%—and one in three claimed their likelihood of success was 100%. Founders' attachment, overconfidence, and naïveté may be necessary to get new ventures up and running, but these emotions later create problems.

Growing Pains

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Founders eventually realize that their financial resources, ability to inspire people, and passion aren't enough to enable their ventures to capitalize fully on the opportunities before them. They invite family members and friends, angel investors, or venture capital firms to invest in their companies. In doing so, they pay a heavy price: They often have to give up total control over the enterprise. Angel investors may allow entrepreneurs to retain control to a greater degree than venture capital firms do, but in both cases, outside directors will join the company's board.

Once the founder is no longer in control of the board, his or her job as CEO is at risk. The board's task is straight-forward if the founder underperforms as CEO, although even when founders are floundering, boards can have a hard time persuading them to put their "babies" up for adoption. But, paradoxically, the need for a change at the top becomes even greater when a founder has delivered results. Let me explain why.

The first major task in any new venture is the development of its product or service. Many founders believe that if they've successfully led the development of the organization's first new offering, that's ample proof of their management prowess. They think investors should have no cause for complaint and should continue to back their leadership. "Since I've gotten us to the stage where the product is ready, that should tell them that I can lead this company" is a common refrain.

Their success makes it harder for founders to realize that when they celebrate the shipping of the first products, they're marking the end of an era. At that point, leaders face a different set of business challenges. The founder has to build a company capable of marketing and selling large volumes of the product and of providing customers with after-sales service. The venture's finances become more complex, and the CEO needs to depend on finance executives and accountants. The organization has to become more structured, and the CEO has to create formal processes, develop specialized roles, and, yes, institute a managerial hierarchy. The dramatic broadening of the skills that the CEO needs at this stage stretches most founders' abilities beyond their limits.

A technology-oriented founder-CEO, for instance, may be the best person to lead a start-up during its early days, but as the company grows, it will need someone with different skills. Indeed, in analyzing the boards of 450 privately held ventures, I found that outside investors control the board more often where the CEO is a founder, where the CEO has a background in science or technology rather than in marketing or sales, and where the CEO has on average 13 years of experience.

Thus, the faster that founder-CEOs lead their companies to the point where they need outside funds and new management skills, the quicker they will lose management control. Success makes founders less qualified to lead the company and changes the power structure so they are more vulnerable. "Congrats, you're a success! Sorry, you're fired," is the implicit message that many investors have to send founder-CEOs.

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Investors wield the most influence over entrepreneurs just before they invest in their companies, often using that moment to force founders to step down. A recent report in *Private Equity Week* pithily captures this dynamic: “Seven Networks Inc., a Redwood City, Calif.-based mobile email company, has raised $42 million in new venture capital funding....In other Seven news, the company named former Onebox.com CEO Russ Bott as its new CEO.”

The founder’s moment of truth sometimes comes quickly. One Silicon Valley?based venture capital firm, for instance, insists on owning at least 50% of any start-up after the first round of financing. Other investors, to reduce their risk, dole money out in stages, and each round alters the board’s composition, gradually threatening the entrepreneur’s control over the company. Then it usually takes two or three rounds of financing before outsiders acquire more than 50% of a venture’s equity. In such cases, investors allow founder-CEOs to lead their enterprises longer, since the founder will have to come back for more capital, but at some point outsiders will gain control of the board.

Whether gradual or sudden, the transition is often stormy. In 2001, for instance, when a California-based internet telephony company finished developing the first generation of its system, an outside investor pushed for the appointment of a new CEO. He felt the company needed an executive experienced at managing the other executives who oversaw the firm’s existing functions, had deeper knowledge of the functions the venture would have to create, and had experience in instituting new processes to knit together the company’s activities. The founder refused to accept the need for a change, and it took five pressure-filled months of persuasion before he would step down.

He’s not the only one to have fought the inevitable; four out of five founder-CEOs I studied resisted the idea, too. If the need for change is clear to the board, why isn’t it clear to the founder? Because the founder’s emotional strengths become liabilities at this stage. Used to being the heart and soul of their ventures, founders find it hard to accept lesser roles, and their resistance triggers traumatic leadership transitions within young companies.

Time to Choose

As start-ups grow, entrepreneurs face a dilemma—one that many aren’t aware of, initially. On the one hand, they have to raise resources in order to capitalize on the opportunities before them. If they choose the right investors, their financial gains will soar. My research shows that a founder who gives up more equity to attract cofounders, nonfounding hires, and investors builds a more valuable company than one who parts with less equity. The founder ends up with a more valuable slice, too. On the other hand, in order to attract investors and executives, entrepreneurs have to give up control over most decision making.

Choosing money: A founder who gives up more equity to attract investors builds a more valuable company than one who parts with less—and ends up with a more valuable slice, too.

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This fundamental tension yields “rich” versus “king” trade-offs. The “rich” options enable the company to become more valuable but sideline the founder by taking away the CEO position and control over major decisions. The “king” choices allow the founder to retain control of decision making by staying CEO and maintaining control over the board—but often only by building a less valuable company. For founders, a “rich” choice isn’t necessarily better than a “king” choice, or vice versa; what matters is how well each decision fits with their reason for starting the company.

Consider, for example, Ockham Technologies’ cofounder and CEO Jim Triandiflou, who realized in 2000 that he would have to attract investors to stay in business. Soon, he had several suitors wooing him, including an inexperienced angel investor and a well-known venture capital firm. The angel investor’s offer would have left Triandiflou in control of the board: Joining him on it would be only his cofounder and the angel investor himself. If he accepted the other offer,though, he would control just two of five seats on the board. Triandiflou felt that Ockham would grow bigger if he roped in the venture capital firm rather than the angel investor. After much soul-searching, he decided to take a risk, and he sold an equity stake to the venture firm. He gave up board control, but in return he gained resources and expertise that helped increase Ockham’s value manifold.

Similarly, at Wily Technology, a Silicon Valley enterprise software company, founder Lew Cirne gave up control of the board and the company in exchange for financial backing from Greylock Partners and other venture capital firms. As a result, CA bought Wily two years later for far more money than it would have if Cirne had tried to go it alone.

On the other side of the coin are founders who bootstrap their ventures in order to remain in control. For instance, John Gabbert, the founder of Room & Board, is a successful Minneapolis-based furniture retailer. Having set up nine stores, he has repeatedly rejected offers of funding that would enable the company to grow faster, fearing that would lead him to lose control. As he told *BusinessWeek* in October 2007, “The trade-offs are just too great.” Gabbert is clearly willing to live with the choices he has made as long as he can run the company himself.

Most founder-CEOs start out by wanting both wealth and power. However, once they grasp that they’ll probably have to maximize one or the other, they will be in a position to figure out which is more important to them. Their past decisions regarding cofounders, hires, and investors will usually tell them which they truly favor. Once they know, they will find it easier to tackle transitions.

Founders who understand that they are motivated more by wealth than by control will themselves bring in new CEOs. For example, at one health care–focused internet venture based in California, the founder-CEO held a series of discussions with potential investors, which helped him uncover his own motivations. He eventually told the investors that he wanted to “do as well as I can from an equity perspective…[and do] what will be required for the company to be successful in the long run.” Once he had articulated that goal, he started

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playing an active role in the search for a new CEO. Such founders are also likely to work with their boards to develop post-succession roles for themselves.

Keeping Founders on Board

What do boards do with founders after asking them to step down as CEO? Ideally, a board should keep the founder ...

By contrast, founders who understand that they are motivated by control are more prone to making decisions that enable them to lead the business at the expense of increasing its value. They are more likely to remain sole founders, to use their own capital instead of taking money from investors, to resist deals that affect their management control, and to attract executives who will not threaten their desire to run the company. For instance, in 2002, the founder-CEO of a Boston-based information technology venture wanted to raise $5 million in a first round of financing. During negotiations with potential investors, he realized that all of them would insist on bringing in a professional CEO. Saying that he “was not going to hand the company over to someone else,” the entrepreneur decided to raise only $2 million, and he remained CEO for the next two years.

Choosing power: Founders motivated by control will make decisions that enable them to lead the business at the expense of increasing its value.

One factor affecting the founder’s choices is the perception of a venture’s potential. Founders often make different decisions when they believe their start-ups have the potential to grow into extremely valuable companies than when they believe their ventures won’t be that valuable. For instance, serial entrepreneur Evan Williams built Pyra Labs, the company that coined the term “blogger” and started the Blogger.com site, without the help of outside investors and eventually sold it to Google in 2003. By contrast, two years later, for his next venture, the podcasting company Odeo, Williams quickly brought in Charles River Ventures to invest $4 million. Asked why, Williams told the *Wall Street Journal* in October 2005: “We thought we had the opportunity to do something more substantial [with Odeo].” Having ceded control quickly in an effort to realize the substantial potential of the company, Williams has had a change of heart, buying back the company in 2006 and regaining his kingship.

Some venture capitalists implicitly use the trade-off between money and control to judge whether they should invest in founder-led companies. A few take it to the extreme by refusing to back founders who aren’t motivated by money. Others invest in a start-up only when they’re confident the founder has the skills to lead it in the long term. Even these firms, though, have to replace as many as a quarter of the founder-CEOs in the companies they fund.

Rich-or-king choices can also crop up in established companies. One of my favorite examples comes from history. In 1917, Henry Royce was pushed to merge Rolls-Royce with Vickers, a large armaments manufacturer, in order to form a stronger British company. In a chapter in *Creating Modern Capitalism*, Peter Botticelli records Royce’s reaction: “From a personal point of view, I prefer to be absolute boss over my own department (even if it was extremely

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small) rather than to be associated with a much larger technical department over which I had only joint control." Royce wanted control—not money.

Heads of not-for-profit organizations must make similar choices. I recently consulted with a successful Virginia-based nonprofit whose founder-CEO had faced two coup attempts. Early on, a hospital executive who felt he was himself more qualified to lead the organization mounted one takeover bid, and some years later, a board member made the other bid when the venture was beginning to attract notice. The founder realized that if he continued to accept money from outside organizations, he would face more attempts to oust him. Now the question he and his family have to think through is whether to take less money from outside funders even though that means the venture will grow less quickly.

Would-be entrepreneurs can also apply the framework to judge the kind of ideas they should pursue. Those desiring control should restrict themselves to businesses where they already have the skills and contacts they need or where large amounts of capital aren't required. They may also want to wait until late in their careers before setting up shop, after they have developed broader skills and accumulated some savings. Founders who want to become wealthy should be open to pursuing ideas that require resources. They can make the leap sooner because they won't mind taking money from investors or depending on executives to manage their ventures.• • •

Choosing between money and power allows entrepreneurs to come to grips with what success means to them. Founders who want to manage empires will not believe they are successes if they lose control, even if they end up rich. Conversely, founders who understand that their goal is to amass wealth will not view themselves as failures when they step down from the top job. Once they realize why they are turning entrepreneur, founders must, as the old Chinese proverb says, "decide on three things at the start: the rules of the game, the stakes, and the quitting time."

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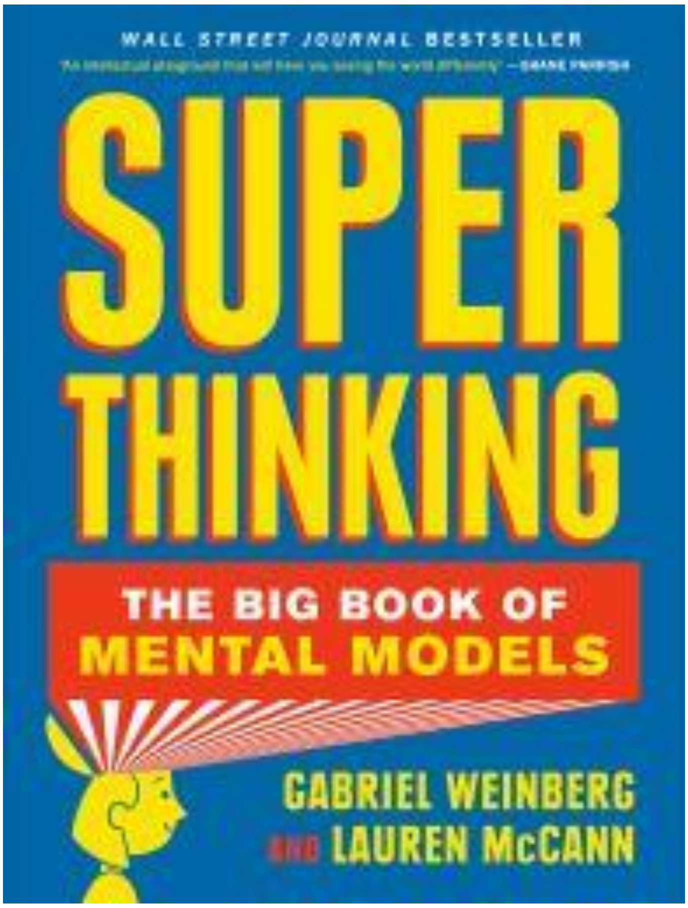

Super Thinking

by Gabriel Weinberg and Lauren McCann

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The Book in One Sentence

- *Super Thinking* is about the frameworks and shortcuts top performers rely on the cut through complexity and separate good ideas from bad ones.

Favorite Quote

- "When you don't use mental models, strategic thinking is like using addition when multiplication is available to you."

Super Thinking Summary

1. Being Wrong Less

Carl Jacobi once said, "Invert, always invert." What Jacobi meant by that, was thinking about a problem from an inverse perspective can unlock new solutions and strategies.

"The central mental model to help you become a chef with your thinking is arguing from first principles. It's the practical starting point to being wrong less, and it means thinking from the bottom up, using basic building blocks of what you think is true to build sound (and sometimes new) conclusions. First principles are the group of self-evident assumptions that make up the foundation on which your conclusions rest—the ingredients in a recipe or the mathematical axioms that underpin a formula."

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“When arguing from first principles, you are deliberately starting from scratch. You are explicitly avoiding the potential trap of conventional wisdom, which could turn out to be wrong. Even if you end up in agreement with conventional wisdom, by taking the first-principles approach, you will gain a much deeper understanding of the subject at hand.”

“To be wrong less, you need to test your assumptions in the real world, a process known as de-risking. There is risk that one or more of your assumptions are untrue, and so the conclusions you reach could also be false. Once you identify the critical assumptions to de-risk, the next step is actually going out and testing these assumptions, proving or disproving them, and then adjusting your strategy appropriately.”

“Ockham’s razor advises that the simplest explanation is most likely to be true. Look at your explanation of a situation, break it down into its constituent assumptions, and for each one, ask yourself: Does this assumption really need to be here? What evidence do I have that it should remain? Is it a false dependency?”

“Overfitting occurs when you use an overly complicated explanation when a simpler one will do. It’s what happens when you don’t heed Ockham’s razor, when you get sucked into the conjunction fallacy or make a similar unforced error. It can occur in any situation where an explanation introduces unnecessary assumptions.”

“One approach to fighting overfitting is to ask yourself: How much does my data really support my conclusion versus other conclusions?”

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“When crafting a solution to a problem, whether making a decision or explaining data, you want to start with the simplest set of assumptions you can think of and de-risk them as simply as possible.”

“If you’re trying to be as objective as possible when making a decision or solving a problem, you always want to account for your **frame of reference**. A frame-of-reference mental trap is framing. Framing refers to the way you present a situation or explanation. You will of course be influenced by your perspective, but you don’t want to be unknowingly influenced. Therefore, if you think you may not have the full understanding of a situation, then you must actively try to get it by looking from a variety of different frames of reference. When someone presents a new idea or decision to you, take a step back and consider other ways in which it could be framed.”

“A related trap/trick is **nudging**. You can be nudged in a direction by a subtle word choice or other environmental cues.”

Another concept you will find useful when making purchasing decisions is **anchoring**, which describes your tendency to rely too heavily on first impressions when making decisions.

The **availability bias** occurs when a bias, or distortion, creeps into your objective view of reality thanks to information recently made available to you. Further, the availability bias stems from overreliance on your recent experiences within your frame of reference, at the expense of the big picture.

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Consequently, to be wrong less when thinking about people, you must find ways to increase your empathy, opening up a deeper understanding of what other people are really thinking.

In any conflict between two people, there are two sides of the story. Then there is the **third story**, the story that a third, impartial observer would recount.

“Forcing yourself to think as an impartial observer can help you in any conflict situation, including difficult business negotiations and personal disagreements.”

“If you can coherently articulate other points of view, even those directly in conflict with your own, then you will be less likely to make biased or incorrect judgments.”

“Another tactical model that can help you empathize is the **most respectful interpretation**, or MRI. In any situation, you can explain a person’s behavior in many ways. MRI asks you to interpret the other parties’ actions in the most respectful way possible. It’s giving people the benefit of the doubt.”

“**Hanlon’s razor** invites you to never attribute to malice that which is adequately explained by carelessness.”

“The third story, most respectful interpretation, and Hanlon’s razor are all attempts to overcome what psychologists call the **fundamental attribution error**, where you frequently make errors by attributing others’ behaviors to their internal, or fundamental, motivations rather than external factors.”

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“The **veil of ignorance** holds that when thinking about how society should be organized, we should do so by imagining ourselves ignorant of our particular place in the world, as if there were a veil preventing us from knowing who we are.”

“The human tendency to gather and interpret new information in a biased way to confirm preexisting beliefs is called **confirmation bias**.”

“Confirmation bias is so hard to overcome that there is a related model called the **backfire effect** that describes the phenomenon of digging in further on a position when faced with clear evidence that disproves it. In other words, it often backfires when people try to change your mind with facts and figures, having the opposite effect on you than it should; you become more entrenched in the original, incorrect position, not less.”

“You may also succumb to holding on to incorrect beliefs because of **disconfirmation bias**, where you impose a stronger burden of proof on the ideas you don’t want to believe.”

“The pernicious effects of confirmation bias and related models can be explained by **cognitive dissonance**, the stress felt by holding two contradictory, dissonant, beliefs at once.”

“A real trick to being wrong less is to fight your instincts to dismiss new information and instead to embrace new ways of thinking and new paradigms.”

“There are a couple of tactical mental models that can help you on an everyday basis to overcome your ingrained confirmation bias and tribalism. First, consider **thinking**

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gray. You may think about issues in terms of black and white, but the truth is somewhere in between, a shade of gray. A truly effective leader, however, needs to be able to see the shades of gray inherent in a situation in order to make wise decisions as to how to proceed."

"A second mental model that can help you with confirmation bias is the **Devil's advocate position**. More broadly, playing the Devil's advocate means taking up an opposing side of an argument, even if it is one you don't agree with. One approach is to force yourself literally to write down different cases for a given decision or appoint different members in a group to do so."

"Another, more effective approach is to proactively include people in a decision-making process who are known to hold opposing viewpoints. Doing so will help everyone involved more easily see the strength in other perspectives and force you to craft a more compelling argument in favor of what you believe."

"Sometimes you may want something to be true so badly that you fool yourself into thinking it is likely to be true. This feeling is known as **optimistic probability bias**, because you are too optimistic about the probability of success."

Key Takeaways

- To avoid mental traps, you must think more objectively. Try arguing from first principles, getting to root causes, and seeking out the third story.
- Realize that your intuitive interpretations of the world can often be wrong due to availability bias,

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fundamental attribution error, optimistic probability bias, and other related mental models that explain common errors in thinking.

- Use Ockham's razor and Hanlon's razor to begin investigating the simplest objective explanations. Then test your theories by de-risking your assumptions, avoiding premature optimization.

- Attempt to think gray in an effort to consistently avoid confirmation bias.

- Actively seek out other perspectives by including the Devil's advocate position and bypassing the filter bubble. Consider the adage "You are what you eat." You need to take in a variety of foods to be a healthy person. Likewise, taking in a variety of perspectives will help you become a super thinker.

2. Anything That Can Go Wrong, Will

Key Takeaways

- "In any situation where you can spot spillover effects (like a polluting factory), look for an externality (like bad health effects) lurking nearby. Fixing it will require intervention either by fiat (like government regulation) or by setting up a marketplace system according to the Coase theorem (like cap and trade)."

- "Public goods (like education) are particularly susceptible to the tragedy of the commons (like

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poor schools) via the free rider problem (like not paying taxes)."

- "Beware of situations with asymmetric information, as they can lead to principal-agent problems."
- "Be careful when basing rewards on measurable incentives, because you are likely to cause unintended and undesirable behavior (Goodhart's law)."
- "Short-termism can easily lead to the accumulation of technical debt and create disadvantageous path dependence; to counteract it, think about preserving optionality and keep in mind the precautionary principle."
- "Internalize the distinction between irreversible and reversible decisions, and don't let yourself succumb to analysis paralysis for the latter."
- "Heed Murphy's law!"

3. Spend Your Time Wisely

Key Takeaways

- "Choose activities to work on based on their relevance to your north star."
- "Focus your time on just one of these truly important activities at a time (no multitasking!), making it the top idea on your mind."
- "Select between options based on opportunity cost models."

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- “Use the Pareto principle to find the 80/20 in any activity and increase your leverage at every turn.”
- “Recognize when you’ve hit diminishing returns and avoid negative returns.”
- “Use commitment and the default effect to avoid present bias, and periodic evaluations to avoid loss aversion and the sunk-cost fallacy.”
- “Look for shortcuts via existing design patterns, tools, or clever algorithms. Consider whether you can reframe the problem.”

4. Becoming One with Nature

Key Takeaways

- “Adopt an experimental mindset, looking for opportunities to run experiments and apply the scientific method wherever possible.”
- “Respect inertia: create or join healthy flywheels; avoid strategy taxes and trying to enact change in high-inertia situations unless you have a tactical advantage such as discovery of a catalyst and a lot of potential energy.”
- “When enacting change, think deeply about how to reach critical mass and how you will navigate the technology adoption life cycle.”
- “Use forcing functions to grease the wheels for change.”

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- "Actively cultivate your luck surface area and put in work needed to not be subsumed by entropy."
- "When faced with what appears to be a zero-sum or black-and-white situation, look for additional options and ultimately for a win-win."

5. Lies, Damned Lies, and Statistics

Key Takeaways

- "Avoid succumbing to the gambler's fallacy or the base rate fallacy."
- "Anecdotal evidence and correlations you see in data are good hypothesis generators, but correlation does not imply causation—you still need to rely on well-designed experiments to draw strong conclusions."
- "Look for tried-and-true experimental designs, such as randomized controlled experiments or A/B testing, that show statistical significance."
- "The normal distribution is particularly useful in experimental analysis due to the central limit theorem. Recall that in a normal distribution, about 68 percent of values fall within one standard deviation, and 95 percent within two."
- "Any isolated experiment can result in a false positive or a false negative and can also be biased by myriad factors, most commonly selection bias, response bias, and survivorship bias."

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- "Replication increases confidence in results, so start by looking for a systematic review and/or meta-analysis when researching an area."
- "Always keep in mind that when dealing with uncertainty, the values you see reported or calculate yourself are uncertain themselves, and that you should seek out and report values with error bars!"

6. Decisions, Decisions

Key Takeaways

- "When tempted to use a pro-con list, consider upgrading to a cost-benefit analysis or decision tree as appropriate."
- "When making any quantitative assessment, run a sensitivity analysis across inputs to uncover key drivers and appreciate where you may need to seek greater accuracy in your assumptions. Pay close attention to any discount rate used."
- "Beware of black swan events and unknown unknowns. Use systems thinking and scenario analysis to more systematically uncover them and assess their impact."
- "For really complex systems or decision spaces, consider simulations to help you better assess what may happen under different scenarios."
- "Watch out for blind spots that arise from groupthink. Consider divergent and lateral thinking techniques when working with groups, including seeking more diverse points of view."

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- “Strive to understand the global optimum in any system and look for decisions that move you closer to it.”

7. Dealing with Conflict

Key Takeaways

- “Analyze conflict situations through a game-theory lens. Look to see if your situation is analogous to common situations like the prisoner’s dilemma, ultimatum game, or war of attrition.”

- “Consider how you can convince others to join your side by being more persuasive through the use of influence models like reciprocity, commitment, liking, social proof, scarcity, and authority. And watch out for how they are being used on you, especially through dark patterns.”

- “Think about how a situation is being framed and whether there is a way to frame it that better communicates your point of view, such as social norms versus market norms, distributive justice versus procedural justice, or an appeal to emotion.”

- “Try to avoid direct conflict because it can have uncertain consequences. Remember there are often alternatives that can lead to more productive outcomes. If diplomacy fails, consider deterrence and containment strategies.”

- “If a conflict situation is not in your favor, try to change the game, possibly using guerrilla warfare and punching-above-your-weight tactics.”

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- "Be aware of how generals always fight the last war, and know your best exit strategy."

8. Unlocking People's Potential

Bill Bradley once said, "Leadership is unlocking people's potential to become better."

It's sometimes said, "Culture is what happens when managers aren't in the room."

Key Takeaways

- "People are not interchangeable. They come from a variety of backgrounds and with a varied set of personalities, strengths, and goals. To be the best manager, you must manage the person, accounting for each individual's unique set of characteristics and current challenges."
- "Craft unique roles that amplify each individual's strengths and motivations. Avoid the Peter principle by promoting people only to roles in which they can succeed."
- "Properly delineate roles and responsibilities using the model of DRI (directly responsible individual)."
- "People need coaching to reach their full potential, especially at new roles. Deliberate practice is the most effective way to help people scale new learning curves. Use the consequence-conviction matrix to look for learning

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opportunities, and use radical candor within one-on-ones to deliver constructive feedback."

- "When trying new things, watch out for common psychological failure modes like impostor syndrome and the Dunning-Kruger effect."
- "Actively define group culture and consistently engage in winning hearts and minds toward your desired culture and associated vision."
- "If you can set people up for success in the right roles and well-defined culture, then you can create the environment for 10x teams to emerge."

9. Flex Your Market Power

Charlie Munger once said, "Mimicking the herd invites regression to the mean."

Key Takeaways

- "Find a secret and build your career or organization around it, searching via customer development for product/market fit (or another "fit" relevant to the situation)."
- "Strive to be like a heat-seeking missile in your search for product/market fit, deftly navigating the idea maze. Look for signs of hitting a resonant frequency for validation."
- "If you can't find any bright spots in what you're doing after some time, critically evaluate your position and consider a pivot."

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- "Build a moat around yourself and your organization to create sustainable competitive advantage."
- "Don't get complacent; remember only the paranoid survive, and keep on the lookout for disruptive innovations, particularly those with a high probability of crossing the chasm."

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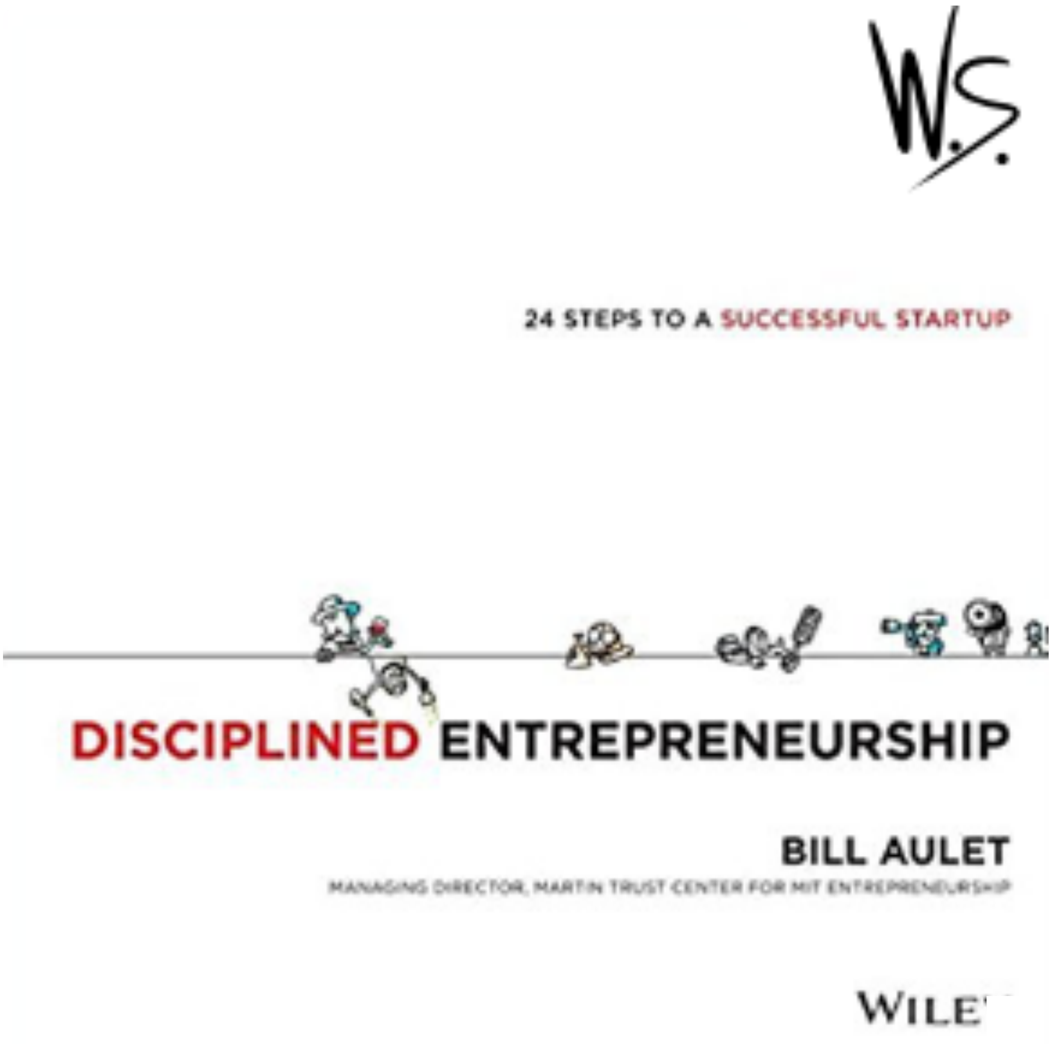
Disciplined Entrepreneurship: Summary and Review



Keywords*: Assumptions, Customer, Entrepreneurship, Market, Plan, Product, Segment, Startup, Scale, Value*

Please Note: *There are links to other reviews, summaries and resources at the end of this post.*

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There's nothing magic about being a successful entrepreneur. It's a learned skill, and in *Disciplined Entrepreneurship*, Bill Aulet details the 24 steps to a successful startup.

Aulet organizes this path along six sections:

- Who is your customer?
- What can you do for your customer?
- How does your customer acquire your product?
- How do you make money off your product?
- How do you design and build your product?
- How do you scale your business?

Aulet borrows ideas and models from different sources and folds them into one system. He references many books such as Geoffrey Moore's *Crossing the Chasm* and *The Lean Startup* by Eric Ries. This approach works well. It provides natural avenues of research for readers who wish to delve deeper.

Each of the 24 steps is illustrated with examples which do a fair job of showing how the ideas under discussion apply to real life. Readers without a lot of time on their hands may opt to skip the examples.

This book provides a good overview of what a startup needs to do to succeed, but you'll probably want to find additional resources for deeper research. And an entrepreneur or company manager will probably want more depth and detail than this book offers.

Step 0: Getting Started

There are basically three different reasons that people start new ventures:

1. They have an idea; they thought of a way to improve something or to make a

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3. Finally, they have a passion; they know they want to be an entrepreneur, even if they don't know yet exactly what their product will be.

Some say that an entrepreneur needs to identify a customer pain, a problem that the customer will pay to fix. But it isn't strictly necessary to start this way. Sometimes people invent things to help with a problem they are personally experiencing. This is called "user entrepreneurship," and almost half of innovation-based startups that survive to the five year mark are founded by user entrepreneurs.

It's also possible to follow your interests and enthusiasm, and eventually you'll discover something the customer wants. If you're going this route, you need to know what you can do well and what you'd enjoy doing for an extended period. Once you answer this, you can evaluate your situation further, considering your education, your specific knowledge base, and your talents and abilities. You might know influential people who can help you. Finally, whether or not you can invest money will affect your decision.

Once you have an idea, start through the 24 steps that make up the rest of this book. At any and every step, staying focused is essential—you don't have a lot of time or resources when you start up, so you really need to honme in on the important stuff immediately.

And Sstart building a team that provides the skills that you lack. Your group might change membership over time; this is a natural evolution for teams. For help finding good co-founders, check out *The Founder's Dilemma*.

Step 1: Market Segmentation

Customers are the single most important factor for a business, so build your company around customers, not products. There are limits, however, to letting customers guide your decisions. You needn't chase after every potential customer on the planet.

Create a profile of your target customer. And Tthe universe of potential customers includes end users (primary customers) and economic buyers (secondary customers). Often these are the same entity, but not always. Focusing here on the primary customer, conduct a market segmentation.

Start by brainstorming a wide variety of market opportunities. Even at this early stage,

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Next, narrow the field. List up to a dozen of the best, most interesting market opportunities for your product. (A market opportunity includes a specific end user and one or more applications.) Then, answer the following questions:

- Can the customer afford the product?
- Can the customer be reached directly, without going through an intermediary?
- Does the customer have a good reason to buy your product?
- Can you deliver your product now?
- Is there competition?
- Once you get this segment, can you get other segments?
- Is the market a good match for the goals and values of the founding team?

Finally, do your primary market research. Talk to potential customers; listen to their ideas; understand their pain points. Don't try to sell anything.

In each market, you're trying to understand several categories of things. You want to know who the end user is and understand how your product will be used. What are the benefits of your product? Evaluate whether anything else is required to use your product. Identify influential (lead) customers, and predict who your likely partners will be. Figure out the market characteristics, including size. Understand your competition. Consider other factors that you need to understand given your circumstance.

Spend a couple weeks at least on this. In the case of multi-sided platform, do each step for each side of the market.

Step 2: Select a Beachhead Market

A beachhead market is like a beachhead in war, like the invasion of Normandy. The allies picked Normandy; they picked one place from which to launch their attack and spread

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So, of the six to 12 market opportunities that you identified, pick one. You might find you have a lot of decent options in picking your beachhead. You probably want to start in a small market with little or no competition, if that's possible.

Consider the variables listed in Step 1 in making this decision: Does the customer have money? Are the customers accessible to your salesforce? Do they have a good reason to buy your product? Are you able to deliver a whole product to them? Is there competition in this market? If you win this market, will it help you with the next one? Is the market consistent with the goals and values of the company's founders? Don't overthink it—it's more important to get started than anything else.

Be disciplined about this and focus all your energy on that one market for the time being. Ignore the others, hard as that may be. You can't be dispersing your resources all over the board. Once you totally own that market, you can move on to others. And if you pick a market that turns out to be a total dud, you can usually go back and change your decision.

Once you've identified a beachhead market, see if you can narrow it down further until you've identified a segment that meets these conditions:

- All the customers buy similar products.
- Customers have similar sales cycles and expectations, so they can be served by similar strategies.
- Customers are networked somehow so that information and opinion can be shared among them.

Step 3: Build an End User Profile

Now that you know your beachhead market, you can focus in on understanding the customer. You'll need to use market research to help you visualize the typical end user in your beachhead market segment.

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person or people who make the decision to purchase the product, and this designation can be broken down further into more roles:

- The *champion* wants the customer to purchase the product.
- The *primary economic buyer* has the power to authorize the purchase.
- Other people who might affect the purchase include people such as *influencers*, *veto power*, *purchasing department*, etc.

You want to focus on the end user, because if the end user doesn't want your product, the customer won't buy it.

Primary market research is crucial for understanding the customer, so throughout the entire process, you'll be in close communication with your target customer. You will want to talk to, observe, and interact with the target customer in a continuous process of information gathering.

Choose a specific demographic within your chosen market, a subset with similar characteristics and needs. You need to pick a target customer, because most likely, not everyone in your market is the same. The sales strategy that works on 25-year- olds likely won't work on 50-year- olds, and vice versa. You can't be all things to all people, so narrow your aim down to one user in a way similar to how you picked your target market.

Also, craft an end user profile, which might include characteristics such as: gender, age, income, location, motivation, lifestyle, etc. You might not know all these characteristics about your user—not yet anyway—but you'll learn more in time. If you have someone on your team with the characteristics of the end user, take advantage of that to build an in-depth profile.

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

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if 100% of the market became customers.

To calculate this, start by figuring out how many people there are who fit your end user profile. Then multiply this number by how much each user is worth. The resulting figure is the TAM.

To go into more detail, do both a bottom-up and a top-down analysis to figure out how many people might fit the end user profile. The bottom-up analysis is basically a process of counting noses. Use customer lists, trade membership rolls, and whatever other sources you can get your hands on to estimate the number of customers. Then, figure out how many end users each customer represents. For the top-down analysis, use demographics to figure out the size of the market. Use secondary research, for example industry reports, to determine the number of end users that fit your profile. The bottom-up analysis is very specific; the top-down analysis is more general. The bottom-up figure will likely be the smaller of the two, but these two analyses should be somewhere in the same ballpark.

To determine how much each user is worth, decide how much money a customer will likely spend on your product in a year. Look at customers' budgets and how much money they are currently spending to do the job that your product accomplishes. Consider what they've paid for other new products. Estimate how much value your product will create for them.

The sum you expect the customer to spend in a year X multiplied by the number of estimated total customers = TAM.

You usually want your TAM to be about $20M—$100M. If it's under $5M, you might need to identify a different beachhead market. And if your TAM is too big, it probably means you need to segment some more. (If you come up with a TAM over a $1B, that could be a sign that you aren't being realistic about the market's possibilities.)

The TAM is an essential calculation that will help you communicate with others. Be prepared to explain how you estimated this figure.

Step 5: Profile the Persona for the Beachhead Market

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of customer you are trying to reach.

Use an actual person on which to model your persona. Some companies use a composite of several different people, or they create a very generic sort of persona. But it's better to choose a real person, because then you don't need to guess what they really think or how they really live their lives. While you might not find someone who is an exact match for your end user, you can probably find someone who comes close.

The information that you should gather for your persona includes the following: place and date of birth; where they grew up; their education; what their family is like; their job and related metrics such as income and job performance; etc. Also, list the persona's Purchasing Criteria:

- How do they prioritize what they want?
- What is it that they worry about the most?
- What are their important goals?

Look for gaps in your information about the person and what they want, so you can interview them again with these questions.

The persona can be helpful throughout the company to help guide decisions. Keep updating your persona as you get more information. And some companies (particularly large, complex organizations) use more than one persona. Starting out, though, just have one persona for each side of the market. This helps your team stay customer focused.

Step 6: Full Lifecycle Use Case

Now that you've gathered detailed information about your target customer, you need to gather equally specific information about how they will use your product. Build a use case.

Through primary market research, learn as much as possible about how your customer

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Do a full lifecycle use case. Explain how existing products aren't currently meeting the persona's needs. Describe how a customer first finds out about your product. Explore how they buy the product, use the product, and whether they tell their friends about it. Be as detailed as you can possibly be. The use case should be visually rich, with materials like charts and flowcharts demonstrating the sequence of events over time.

This exercise helps you see how the product fits the customer and what sort of barrier there might be that could prevent the customer from using your product.

Step 7: High-level Product Specification

Now that you've defined and analyzed the customer, you can turn your attention to the product. Some argue that considering the product should come earlier in the process, but if you want your product to be a success it will, first and foremost, have to appeal to the customer. So, even if you start with an idea for a great product, you should still begin by identifying your beachhead market and end user, and developing the persona.

Create a high-level product specification, a visual representation that shows what the product will look like. You don't have to know every detail about it yet, but you should be able to sketch it out. Use storyboards and schematics as appropriate. But keep it high level. You don't have to build a prototype at this stage—and probably shouldn't even try. They are expensive to produce, and there's a danger that you'll fall in love with it and be resistant to changing it as needed.

A drawing or similar visual aid will help you communicate with your customer. (You still aren't trying to sell the product at this point.) You want customers' opinions, to aid in your own understanding of the product's strengths and weaknesses. This exercise helps you visualize your product, giving you something tangible to discuss with your team and something to show customers. It will also help you to stay focused on the customers even as you work out the features. Like many other steps in this book, you're likely to come back to this and refine it several times.

Step 8: Quantify the Value

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When the customer buys a product, they are expecting to receive some sort of value from it. The quantified value proposition measures this value, focusing on the customer's needs, not on technology or features. In other words, it shows how the customer will get value from the product, expressed as a tangible metric. It will help you quantify how well the product aligns with the persona's top priorities.

To calculate the quantified value proposition, start with the persona's top priority (or priorities). Your product should provide value that addresses this priority. For example, if the customer's top priority is to reduce time to market, and your product provides value by reducing production costs, then your value proposition isn't in alignment with the customer's priority. Your product might have several benefits, so pick the benefit that most aligns with the persona's priorities.

Describe an "as-is" condition—that is to say, how the customers are taking care of business without your product—and contrast this with a "possible" state. The difference between the two is the quantified value proposition.

It's useful to create a simple, easy-to-understand visual describing the value proposition. You want to communicate the "as-is" and the "possible" states so that the customer can easily understand them. But don't exaggerate what your product does. Entrepreneurs want to convince people that their product is wonderful, but it's important to maintain your credibility, too. Don't promise what you can't deliver.

The quantified value proposition can be extremely valuable throughout the process of launching a business. It's worth the time it takes to create the best value proposition possible.

Step 9: Identify Your Next 10 Customers

The persona you've developed is useful, but you need to identify other customers to make sure you aren't being too specific with the persona. This isn't too likely to happen if the persona is created correctly, but just in case, identify 10 potential customers that fit the description of your end user. These people should all be like each other and similar to the persona. (If you can't find ten 10 customers to participate, reconsider your beachhead market.)

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the depth of the enthusiasm. It's good if someone says they like something; it's better if they say they love it.

If they like what they see and agree with what you show them, you can be confident you're on the right track. This will also be helpful for convincing others, like partners and investors, that your idea is sound. On the other hand, if there are signs of trouble, you can go back and fix the problems while still early in the process. You're bound to get negat feedback about something at some point—you should welcome it. It can be difficult to hear, but it can be the most helpful thing in the world. If you're surprised by what the customers say, take good notes and try not to overreact. You are there to listen to the customer, not to convince them of anything.

Once you've generated more data, evaluate your previous assumptions based on the new information. Look at the information you've amassed, and see if this validates your persona.

Step 10: Validate Your Core

In this step, you describe what your business gives to customers that other companies cannot provide. This is your company's core. The core is what differentiates you from everyone else; it's what you do better than everyone else. Your core is usually something that's hard or impossible for others to duplicate.

Every company has its own products and faces unique circumstances, and so there's no formula to follow for identifying your core. Consider, however, some examples of things that can be core.

If *network effect* is your core, you will dominate your field by reaching a critical mass so that it doesn't make sense for customers to go elsewhere. The value of a network is related to how many people are on that network. The company with the most users becomes the most valuable. New customers gravitate to the biggest, most valuable company, ignoring a positive feedback loop.

A company that features outstanding *customer service* retains a higher portion of customers compared to the competition. This reduces churn, which reduces expense. And satisfied customers will be more inclined to tell their friends about the good service they received, which will draw in new customers.

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experience, where everyone on the team is focused on continuous improvement of user experience.

There are plenty of other features that can constitute the core—it depends on your company and your product. But once you have found your core, be prepared to keep it. Change your core at your peril.

There are things that can give your company a market advantage, but they aren't core. For example, innovative technology is one of these things: it's great and it can make you piles of money, but it's extremely hard to maintain this edge over the long term. Core also isn't the same thing as competitive position or first mover advantage.

Defining your core isn't easy, but it's an important part of maximizing the value of your business.

Step 11: Chart Your Competitive Position

With the competitive position chart, you analyze how well both you and your competitor fulfill your customers' two highest priorities. You want to show that you meet the customer's priorities better than the competition and better than other existing products. If you can't demonstrate this, then you should probably reevaluate your market selection and your core.

Create a graph to compare your persona's two top priorities, using the x axis for the persona's top priority and the y axis for their second highest priority. Where these lines meet is the origin, and the closer to the origin a certain feature is, the worse it is. The further from the origin, the better. (If you're having trouble visualizing this, page 135 has a picture of the chart.)

Use this chart to map out your product, your competitor's product, and the results of inaction and the status quo option. Hopefully you find your product located at the top right corner of the chart. If you aren't, you might need to reevaluate your product.

Show the chart to your target customers, and refine it in response to their feedback until it accurately reflects how well you and your competition address your persona's two top

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Step 12: Determine the Customer's Decision-making Unit (Dmu)

It's important to verify that your customer will be able to buy your product, so you need identify who will make the purchasing decision for the end user.

There are three main roles in the Decision-Making Unit (DMU):

- The champion is the person who wants to buy the product. Often, this is the end user, but sometimes there's more than one champion.
- The end user is the person who will actually use the product.
- The primary economic buyer is the person who pays or signs off on paying and is usually the one who has the ultimate decision-making power.

There can also be additional roles in play. Influencers often have a lot of experience and advise the DMU. People with veto power can include a variety of institutional forces, like IT and compliance departments.

To sell to the customer, you must understand who makes the decision to buy. To research this, talk to the customer. (Again,: remember that you are asking them questions and not trying to make a sale.) You can also get information about influencers from the research you did while developing the persona. After you've done the research, map out your findings and show your results to your customers. Continue to revise this tool until it accurately shows the DMU.

If the persona isn't the primary economic buyer or the advocate, create fact sheets for each person in these roles. The goal is to figure out how to appeal to them so that they can agree to purchase the product.

Step 13: Map the Process to

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Once you know who will make the decision to purchase your product, you need to understand their decision-making process so you can make your product fit that process. How long will it take for delivery and payment, from the time you present your product to the purchaser? How much will it cost for you to acquire new customers? Finally, what, if any, obstacles stand in the way of making the sale?

Once you learn these things, you then need to be able to articulate them so that invest and lenders are assured that you're solidly grounded in reality. A map of the process of acquiring a customer can be a helpful tool.

Your map will be industry dependent, but it should include things like lead generation, access to influencers, purchasing, sales cycles, installation, etc. And Tthese items will likely have subcomponents. Don't forget to include plans for complying with standards and legal regulations.

For each component, you should identify the key DMU players, their influences, and their budgetary authority. You should also detail how you will be paid, who has the purchasing authority, and whether the cost comes out of the operating budget or the capital budget. It's crucial to understand who the budgeting and purchasing authorities are in this situation. You also need to have a solid understanding of how much time is involved—for example, if a company accounts for such purchases in their annual budget, you need to know that so you can plan accordingly.

Look for any potential pitfalls; identify obstacles that could slow you down.

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

Your attention so far has appropriately been on your beachhead market. Now take a moment to consider what other markets might be good for your product. This should be a brief exercise, because for the most part, your focus should still be on the beachhead market. You do, however, want to be sure you have somewhere to go after the beachhead.

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- You can sell new products to your same customers, which is known as upselling. Because you have a substantial amount of information about these customers, it would be cost effective to sell them more products. They (hopefully) already have a positive opinion of you, you can leverage this as long as you don't do anything that contradicts your core.
- The other option is to sell the same old product to new customers in adjacent markets. Doing so allows you to leverage resources that you already have. You might want to make some tweaks and change the packaging, but your core is the same.

Once you dominate the beachhead, you can pick one of these strategies for moving forward. Or you might decide to develop a combination of the two for expanding to new markets.

Calculating the TAM for follow-on markets shows your potential. It can also be useful in helping investors understand the direction your company is heading. You'll want to identify about five or six follow-on markets, although if you hope to grow into a large company, you might look at up to 10 follow-on markets. To attract venture capitalists, the total TAM for your beachhead plus follow-on markets should be at least one billion dollars.

For the most part, though, you want your energy on the beachhead right now.

Step 15: Design a Business Model

The business model answers the question: "How will your company make money?"

An innovative business model can reshape the entire market, so it's worth taking some time to think about it. Once you have customers, it will be hard to change your business model, so try to get it right early in the process. Maybe try testing a few different ones.

Don't worry too much right now about pricing.

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customer acquisition process for guidance during business model development. Also bear in mind what the competition is doing and what the distribution channel is like.

It's good to remember that *free* isn't a viable model. Some startups figure they'll get the users on board first, and decide how to monetize the platform later. Sometimes the idea is that users will ultimately pay for enhanced features. These things are not business models. You need to know before you start how you're going to make money and wher the money is coming from.

There are many different types of business models (Aulet lists 17), but there are many more possible types. You can also think beyond existing business models and make up something new.

Step 16: Set Your Pricing Framework

The pricing process starts here, but pricing is likely to change several times as you go through the steps and experiment with different price points. Identifying specific dollar amounts won't happen until a bit farther down the road. Ultimately, you want to estimate the lifetime value of an acquired customer and the cost of customer acquisition. This will be a step in the direction toward those goals.

Price should be based on how much value the customer gets from your product, not on how much it costs you to produce the product. (Your costs are on a need-to-know basis —don't tell anyone who doesn't need to know.) Calculate how much value customers get, and then charge a fraction of that, so they get some left-over value.

You need to understand the customer's budget, and the DMU research and customer acquisition map will help you. You also need to understand the pricing of competing solutions. And different kinds of customers are willing to pay different prices.

When you start out, it's better to set your process higher so you can drop them if you need to. It's easier to drop the price than to raise it.

Step 17: Calculate Lifetime Value

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Lifetime Value (LTV) is the average profit you'll make on a new customer and includes factors such as revenue streams, costs, customer retention rates, and so forth. The LTV, along with the Cost of Customer Acquisition (COCA) can give you an idea of how much is to be made in your beachhead market. If your COCA is too high, you likely won't make money, no matter how high your sales volume.

A new company calculates LTV for a five-year time span. Your customer will still be valuable to you after five years, but it's easier and more realistic to stick with this timeframe. Figure out the gross margin and retention rate for each year, considering how often the customer will have to replace the product. Then, figure out the profit across all revenue streams. Next, calculate the present value at above cost of capital, which takes into account the profit that your investors are expecting to receive. The value at year 0 equals that year's profits. The equation for the other years is:

Present Value = Profit x (1-Cost of Capital Rate)t

t = the number of years after year 0.

The LTV, however, won't tell you the whole story. In order for the LTV metric to be meaningful, you have to know the COCA. And even when you know your COCA, you've got to remember other expenses not accounted for in these numbers. Some venture capitalists recommend that your LTV be at least three times greater than the COCA, to account for these expenses.

This might be a bit off-putting for the mathematically averse, but it's very important to understand. *Disciplined Entrepreneurship* explains these details as clearly as anyone could hope. Go through it several times if need be.

Step 18: Map the Sales Process to Acquire a Customer

The Cost of Customer Acquisition (COCA) asks how much will we spend on acquiring new customers. It's easy to optimistically underestimate this expense, but be as real as possible when you go through this calculation.

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For new enterprises, the COCA usually starts high and then falls. You will want to plan for short, medium, and long term separately. In the short term, you're trying to whip up demand for the product and fill existing orders. Your product is new, so you'll have to spend lots of energy communicating directly with the client, explaining the product to them. Direct sales people are expensive, but the good ones are worth their salaries. Internet strategies like email and social media marketing can lessen your reliance on sales staff.

In addition to order fulfillment, medium-term sales strategy includes focusing on client management to retain existing clients and create additional sales opportunities for them. Distributors are useful here, freeing up your expensive sales staff to focus on customers with the highest LTV.

Finally, in the long term, you'll continue to fulfill orders and client management, and adjustments will have to be made as competitors emerge.

Map the sales process. Think about the sales channel you're going to use and how it will change over time. Consider factors such as how you intend to make sales and how you collect money. Pay attention to the length of the sales cycle.

Once you have a plan, show it to someone in the industry who can verify its reasonableness and give you advice.

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

You are creating a new kind of business that's never been attempted before. By necessity, you make a lot of assumptions about your product, your market, your customer. Now, you must systematically go through and test them all.

Start by identifying your assumptions. Look at each step of your framework. List the places where you've made conclusions based on your research. Pay special attention to your assumptions about gross margins. Other important areas to evaluate are your customer lists and the DMU.

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Step 20: Identify Key Assumptions

You are creating a new kind of business that's never been attempted before. By necessity, you make a lot of assumptions about your product, your market, your customer. Now, you must systematically go through and test them all.

Start by identifying your assumptions. Look at each step of your framework. List the places where you've made conclusions based on your research. Pay special attention to your assumptions about gross margins. Other important areas to evaluate are your customer lists and the DMU.

Break down the assumptions into small, testable components. Don't worry about how you're going to design the test, otherwise you might be tempted to pass over assumptions that will be difficult to test. Just focus on identifying the key assumptions.

Step 21: Test Key Assumptions

You want to test key assumptions as cheaply and quickly as possible. You don't need anything fancy, you just need empirical data to verify that your assumptions are on track with reality. Bear in mind, even if all your assumptions check out, there's still no guarantee that your company will be a success.

How you test your assumptions will depend on the specifics of the assumptions. For example, check your cost projections by seeing how much vendors charge for supplies. For customer-based assumptions (like whether they're willing to pay for your product), you can ask them how much they'd be willing to prepay, sign a binding contract, or provide a letter of intent. It's best if you can meet with customers in person to get a better sense of their level of enthusiasm.

Perhaps the most important assumptions to test are cost targets and how enthusiastic key customers are for your product. Testing assumptions compliments the market-based research that you've already done. The combination of this data will position you to create a product that can succeed in the beachhead market.

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In this step, we're going to take the assumptions that you tested and use them to create an actual product. This product, the minimum viable business product (MVBP), will actually be one more step in validating assumptions. It will integrate your assumptions into a single system test to verify the minimal product for which a customer will still pay.

MVBP requirements include:

1. The customer gets value from using the product.
2. The customer pays for the product.
3. The product is good enough to start a feedback loop, helping you change and improve the product so you can make a better product.

Design the MVBP, starting by listing your key assumptions, then narrowing the list to the most important assumptions. Build a product that customers can use based on these assumptions.

Some business models have more than one kind of customer. The primary customer might get a discount or even have access to the product for free; the secondary customer pays for the product in exchange for access to the primary customers or for access to information about them. If this is your situation, design the MVBP so that requirements one and three above are met for primary customers, and all three requirements are met for secondary customers.

The MVBP should be sufficient (in other words, it should do the job, and it should be simple). It's tempting to add features, but you want to keep it simple. No extra bells and whistles. You don't want extra variables mucking up your research. You want to get this thing into the customers' hands as quickly as possible.

With this step, you see if your product provides value to the customer. This can kick start a feedback loop with the customer that will help you to create better versions of the product.

Step 23: Show That "the Dogs Will Eat the Dog Food"

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unusual to see a team plug away dutifully on product design, only to find that, at the end of the day, they have a product no one will pay for.

You might think that after all this great research you've done, your product is a guaranteed success. But people aren't rational beings, and all the research in the world won't change that. Before you sink more money into it, put the MVBP in front of the customer. See if your assumptions work in the real world.

Where you decide to price your product doesn't matter as much as showing that your customers will pay for it. Now you can start accumulating data on how much they like the product. Measure how much they advocate on behalf of the product to others in the TAM. Word of mouth is great for lowering your cost of customer acquisition.

Also, see how customers use the product. Collect data on everything that happens. Analyze that data and look for trends. And try to understand what is driving the trends. Be honest with yourself and limit your analysis to the real data you collected in the real world.

Step 24: Develop a Product Plan

You have finally reached the point where you can build a product for your beachhead market. Now you can develop a product plan.

In creating your MVBP, you put some of the features on the back burner. Now you can put some of those features back in. When you add features in, be sure they meet high standards of quality. Of course, nothing is perfect, and new products do tend to have bugs. You want your product to be as good as possible, however, so that people think positively about it right from the get-go.

You can also start thinking about expanding your market. Work the prior steps in planning your next follow-on market. Some things will differ between the beachhead and follow-on markets (for example, your marketing plan will likely be different; the channels might be different), but you should still follow your core. And your marketing to follow-on markets should make sense given your business goals.

You still need to pay attention to the beachhead market. If you neglect them at this stage, you could run out of money before you get established in follow-on markets. But you

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Additional Resources

Review of Disciplined Entrepreneurship by Sloan Review

Review of Disciplined Entrepreneurship by MIT

Review of Disciplined Entrepreneurship by Alex JoonSung Jang

Review of Disciplined Entrepreneurship by Soundview Executive Book Summaries

Review of Disciplined Entrepreneurship by Donncha Hughes

Review of Disciplined Entrepreneurship by YourStory

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Highlights of Disciplined Entrepreneurship by On Startups **Free**

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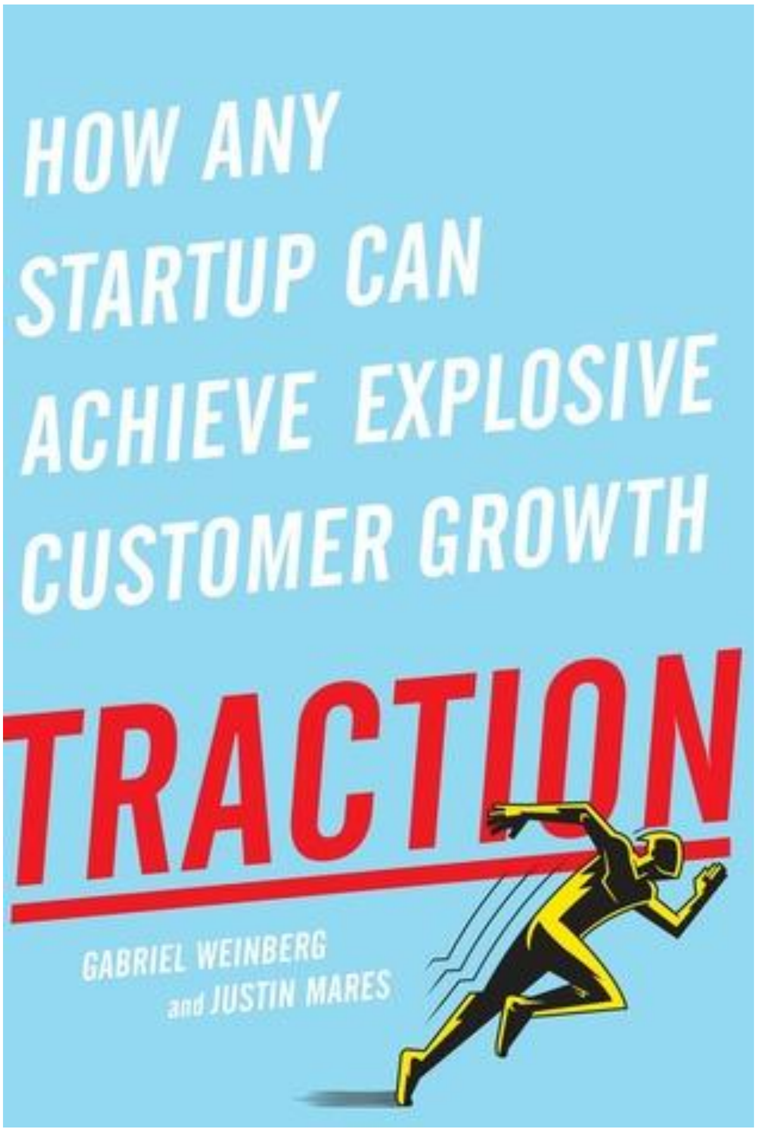

Traction

How Any Startup Can Achieve Explosive Customer Growth
Gabriel Weinberg

BOOK SUMMARY CURATED BY GUILLERMO FLOR
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Summary

Two successful startup founders offer a comprehensive overview of the various ways startups can achieve strong, sustainable growth, and a guide to choosing the ones that will make the difference.

Review

This changed my perspective on marketing strategy.

I've been struggling with the general aim "how do I get more podcast listeners" and this book helped break that down into a really digestible answer.

It took me a while to read because I had to stop and jot down ideas every few pages (a good thing!)

Notes

Preface: Traction Trumps Everything

- "Traction is the best way to improve your chances of startup success. Traction is a sign that something is working. If you charge for your product, it means customers are buying. If your product is free, it's a growing user base."
- "I made two large traction mistakes here. First, I failed to have a concrete traction goal... Second, I was biased by my previous experience."
- **"We've hit the bullseye repeatedly, and so can you."**

Chapter One: Traction Channels

- "Traction is a sign that your company is taking off."
- **"Traction is basically quantitative evidence of customer demand."**
- **"The only essential thing is growth. Everything else we associate with startups follows from growth."**

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- Traction channels are "marketing and distribution channels through which your startup can get traction: real customer growth."
- "Until you start running tests, it's difficult to tell which channel is the best one for you right now."
- **"The right channel is often an underutilized one. Get one channel working that your competitors dismiss, and you can grow rapidly while they languish."**

Chapter Two: Traction Thinking

- The 50% rule: "spend your time constructing your product or service and testing traction channels in parallel."
- Doing traction and product dev in the short term might slow short term results but will help grow long term results.
- You need a traction goal. Early on, this is either making enough to be profitable or enough to get investors.
- There are three phases to growing a product or service. First, make something people want. Second, market something people want. Third, scale your business.
- **In phase 1, you do "things that don't scale." Give talks, write guest posts, email people. This is manual user acquisition.**

Chapter Three: Bullseye

- It is very likely that one marketing channel is optimal
- "Poor distribution--not product--is the number one cause of failure."
- **Bullseye forces you to take all traction channels more seriously than you would otherwise.**
- "focus on successive rounds of parallel tests."
- "What Lean is to product development, Bullseye is to traction"
- **Talk to founders a few steps ahead of you. (Always a good idea)**

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The Three Step Bullseye Framework

1- The Outer Ring: What's Possible

- Brainstorm every single traction channel. Imagine what success would look like for that channel and write it down in the outer ring.
- You should be able to think of at least one idea for every channel.

2- The Middle Ring: What's Probable

- The second step is running cheap traction tests in the channels that seem most promising. You can run multiple experiments at the same time.
- When testing, you are not trying to get a lot of traction in a channel just yet. You are simply trying to determine if it's a channel that could move the needle.
- Your main consideration is speed. Getting data to test assumptions.

3- The Inner Ring: What's Working

- Focus exclusively on the channel that will move the needle then wring every bit out of it.

Chapter Four: Traction Testing

- "Over time, all marketing strategies become saturated."
- Use a spreadsheet to track and compare tests on fields like conversion rate, acquisition costs, lifetime value of a customer

Tests should be designed to answer three questions

1. How much does it cost to acquire each customer through this channel strategy?
2. How many customers are available through this channel strategy?

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3. Are the customers you are getting through this channel the ones you want right now?

Inner ring tests have two purposes

1. Optimize your chosen channel strategy to make it the best it can be.
2. Uncover better strategies within this traction channel.

Chapter Five: Critical Path

- You should always have an explicit traction goal. Pick a target such that hitting the mark would change things significantly for your company's outcome.
- Explicitly set intermediate milestones.
- Only make product updates that are most necessary to reach the milestones that are part of the critical path.
- "A major function of this book is simply helping you overcome your biases against particular traction channels by educating you about them."
- Lay out your milestones and "quantify traction subgoals and put them on a calendar so you can properly monitor your progress over time."

Chapter Six: Targeting Blogs

- Target blogs that your prospective customers are reading.
- Using tactics that don't scale is one of the best ways to get your first customers. (Paul Graham)
- Mint (the budgeting app) used this strategy extraordinarily well when they first launched by partnering with/ getting press from many of the top personal finance blogs.
- Places to find these blogs
- Search Engines, YouTube, Delicious, Twitter, Social Mention, 1 on 1 interactions with real humans.

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- Also consider link sharing communities like HackerNews, Reddit, Product Hunt.
- Offer to write guest posts. Make special offers exclusively for readers of the blog.

Chapter Seven: Publicity

- Getting featured by large publications like The Huffington Post or TechCrunch are great marketing tactics early on. These days, media funnels bottom up. Small publications find and validate stories and larger publications find out about new and interesting stories from the smaller publications.
- "If you have a fascinating story with broad appeal, media outlets now want to hear from you because you will drive visits and make them more money."
- "Blogs have an enormous influence on other blogs, making it possible to turn a post on a site with only a little traffic into posts on much bigger sites"
- Follow reporters in your niche on Twitter and add value to their content.

Chapter Eight: Unconventional PR

- These are the creative [[The Third Door]] strategies that can move the needle.
- It's Blendtec creating the "Will It Blend" series.
- It's WePay putting a block of ice outside of Paypal's big conference.
- It's exceeding customer expectations and overdelivering.
- "Doing these types of things has worked so well for Grasshopper that it has hired two full-time employees whose sole responsibility is to delight customers."
- "Holding a contest is a great, repeatable way to generate publicity and get some word of mouth."
- "Zappos classifies customer service as a marketing investment"

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- "Do something big, cheap, fun, and original."
- "Be awesome to your customers and good things follow."

Chapter Nine: Search Engine Marketing (SEM) (Paid Ads)

- "online marketers spend more than $100 million each day on Google's AdWords platform."
- "SEM works well for companies looking to sell directly to their target customer. You are capturing people who are actively searching for solutions."
- Click-Through Rate (CTR) - the percentage of ad impressions that result in clicks to your site.
- Cost per Click (CPC)
- Cost per Acquisition (CPA)
- CPA = CPC/ conversion percentage
- Consider driving traffic to landing pages before making large investments in product. This way you can cheaply test and validate ideas.
- "The basic SEM process is to find high-potential keywords, group them into ad groups, and then test different ad copy and landing pages within each ad group."
- "Long-tail keywords are less competitive and have lower search volumes, which make them ideal for testing on smaller groups of customers."
- "You will also want to include the keyword at least once in the body of your ad."
- "someone just starting out in this channel should begin testing just four ads."
- "You should also consider luring people back to your site by retargeting through Google AdWords."

Chapter Ten: Social and Display Ads

- "The goal of social ads is often awareness oriented, not conversion oriented."

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- "Instead of directing people to a conversion page, direct them to a piece of content that explains why you developed your product and your broader mission."
- "If you've invested time and energy creating a great piece of content, spending a little bit of money to ensure that content gets wide distribution makes sense."
- "In one case, after spending just $15 on Twitter ads, they [Airbrake] received hundreds or organic retweets, tens of Facebook likes, and two submissions to reddit and Hacker News."
- "LinkedIn ads allow targeting by job title, company, industry, or other business demographics."
- "Facebook offers companies the ability to buy targeted ads based on user's interests, pages they like, or even people they're connected with."
- "When you buy a Facebook ad, you're buying more than just a targeted fan; you're buying the opportunity to access that person's social graph. With the proper incentives, fans will share and recommend your brand to their connections."

Chapter Eleven: Offline Ads

- "To get really cheap offline ads, look for remnant advertising. Remnant advertising is ad space that is currently being unused."
- "If you are not sensitive to location or timing, you can get substantial discounts by committing to buy remnant inventory."
- "Transit ads are placed in or on buses, taxis, benches, and bus shelters." These ads "can be effective as a direct-response tool because people in transit are a captive audience."
- "Run cheap tests by first targeting local markets"
- "Seek out remnant ad inventory for the highest discounts."
- "Use unique codes or Web addresses to track the effectiveness of different online ad campaigns."

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Chapter Twelve: Search Engine Optimization

- "SEO is starting with a content strategy and finding a way to attract relevant visitors through search engines."
- "SEO allows you to amplify all the good things you're already doing in other traction channels."
- "Only about 10 percent of clicks occur beyond the first ten links, so you want to be as high up on the first page as possible."
- You want to find terms that have enough volume such that if you captured 10 percent of the searches for a given term then it would be meaningful."
- "Using tools like Open Site Explorer, examine the number of links competitors have for a given term."
- "You can further test keywords by buying SEM ads against them."
- "For ten to twenty dollars per search term, you can pay someone to write an article that you won't be embarrassed to put on your Web site."
- "Another way to approach long-tail SEO is to use content that naturally flows from your business... what data do we collect or generate that other people may find useful?"
- Creating useful widgets for other sites that contain useful functionality can be a good approach to SEO.
- Sketchy tactics only ever work in the short term.

Chapter Thirteen: Content Marketing

- Ping influencers in your niche on twitter to get feedback about your writing.
- Engage with target customers on link building forums like Quora or Reddit.
- Grow email lists and blog traffic by giving out good content like e-books and infographics.

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- "The most common hurdle in content marketing is writer's block. To overcome it, simply write about the problems facing your target customers."
- "The secret to shareable content is showing readers they have a problems they didn't know about, or at least couldn't fully articulate."
- "One of the best methods of growing your audience is guest posting."
- Having a strong blog can positively benefit at least 8 other traction channels: SEO, publicity, email marketing, targeting blogs, community building, offline events, existing platforms, and business development."
- If you blog, dedicate at least six months to it. Do things that don't scale early on. Produce in-depth posts you can't find anywhere else. Only good content succeeds.

Chapter Fourteen: Email Marketing

- "A popular approach to building an email list is creating a short, free course related to your area of expertise."
- Many companies now use ads to get leads to a page that just asks for an email. Then, they will use email marketing over the course of a month to sell a prospect.

Chapter Fifteen: Viral Marketing

- "Viral marketing is the process of getting your existing customers to refer others to your product."
- "literally "going viral" means that every user brings in at least one other user"
- Big examples of this are social media sites, Dropbox, Uber, and Skype.

Chapter Sixteen: Engineering as Marketing

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- Build cool (often free)stuff related to your product that gets attention.
- An example could be a digital marketing software company creating a free widget that tells you how much traffic you get.
- Another example is **https://playingwithfire.co/retirementcalculator/** they give you a free FIRE themed calculator and that leads you to buy the book/watch the documentary.
- Make great free tools that make people want to buy your paid tools.

Chapter Seventeen: Business Development

- Exchange value through mutually beneficial partnerships with other businesses.
- Focus on the incentives of the other business and on what your partnership would do that helps them.
- "The most important thing is to find out who is in charge of the metric you've targeted. If you think your partnership will help your partner sell more T-shirts, be sure to talk to the person most in charge of selling more T-shirts."
- THINK WIN-WIN.
- Have a pipeline of deals going at once.

Chapter Eighteen: Sales

- The authors recommend the SPIN Framework by Neil Rackham for being effective on cold calls. SPIN stands for situation, problem, implication, need-payoff.
- Make sure the person you are selling to has enough decision making authority.
- Don't rule out cold-calling. Build a repeatable model. Get the buyer to commit to timelines. Keep the customer's perspective in mind.

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Chapter Nineteen: Affiliate Programs

- Have people sell your product for you for some reward. This could be a flat fee per sale, a % of sales, or other benefits (swag, exclusive product features).
- You can join existing networks of affiliate marketers to jumpstart your potential in this channel. If it goes well, you can justify customizing your own program later on.
- This is a low-risk channel, if someone violates your affiliate rules (assuming the rules are clearly stated and fair) you don't have to pay them.
- Keep your payouts simple. Don't overlook your current customers as potential affiliates.

Chapter Twenty: Existing Platforms

- Apps and Browser Extensions
- Making apps can tap into the huge existing markets of the app store (and other platform's marketplaces)
- Don't write this off as a way to get users.
- Social Media and Other Sites
- "First figure out where your target customer hangs out online. Then create a strategy to target potential customers on these existing platforms."
- Often it makes sense to focus on platforms that are just taking off.

Chapter Twenty-One: Trade Shows

- Going to trade shows and conferences can be great ways to meet potential customers or business partners.
- Be intentional about what conferences you want to go to and why you want to go them. Ask for a list of attendees and start making appointments for meetings or dinners ahead of time.
- "Have an inbound and outbound strategy for your booth. Do something proactive and creative. Include a strong call to

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action on every item you give out." Tote bags are usually a good default give-away item.

Chapter Twenty-Two: Offline Events

- Attending or hosting conferences can be extremely rewarding. Conferences can be as simple as one-day meetup or a group of people meeting for Pizza.
- Events could include throwing hackathons, hosting parties, bringing in speakers in the industry, or getting a group of likeminded people to just show up and chat.
- "One of the reasons that offline events are effective is that so few startups are doing them"
- "Early on when you're trying to get those first one thousand customers, you have to do things that don't scale. You have to take more risks."

Chapter Twenty-Three: Speaking Engagements

- Start by giving free talks to small groups of potential customers or partners.
- "We recommend trying to give at least one talk even if you choose not to pursue this channel."
- "If you have a good idea for a talk and see an event that aligns with an area of your expertise, simply pitch your talk to the event organizers"
- "Getting valuable early speaking experience is not difficult. Start by speaking for free at coworking spaces, nonprofits, and smaller conferences or events. Use there smaller-scale appearances to refine your talks and build your speaking reputation."
- "To become a speaker you have to speak once. If you speak and you're good, people in the audience will ask you to speak at other events. That's just how it happens."
- Record your speaking engagements. They can be useful to have for future marketing purposes.

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- "The best talks I've ever seen are where each slide is essentially a seven-minute story with a beginning, middle, and end."
- "At most conferences there is a speaker's dinner, where presenters get to meet one another and network. If there isn't one scheduled" take the liberty of scheduling one.
- "Remember that you are doing organizers a favor by presenting. Event organizers need to fill their time at events"
- Submit proposals far in advance. "Tell a story on stage."

Chapter Twenty-Four: Community Building

- Examples are Wikipedia, Stack Exchange, Yelp and Reddit.
- When users generate valuable content for other users, there is massive potential for growth.
- Be sure to set and enforce high standards to keep the community high quality from the start.

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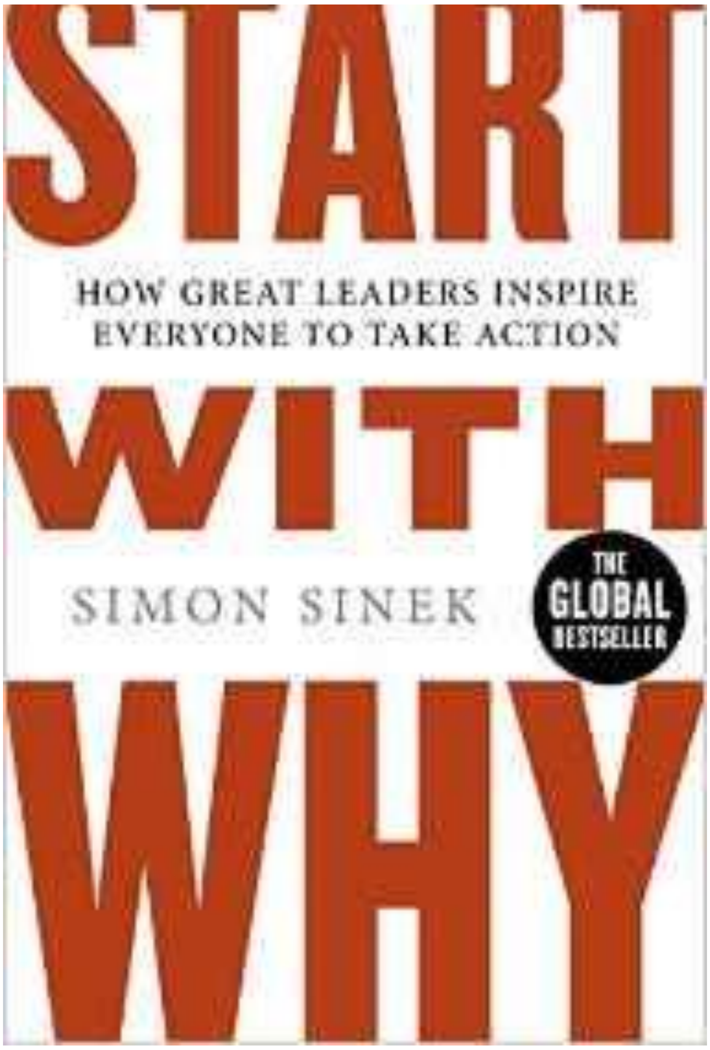

Start With Why.
How great leaders inspire everyone to take action.

BY SIMON SINEK

BOOK SUMMARY – CURATED BY GUILLERMO FLOR

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There are leaders and there are those who lead. Start With Why is about a naturally occurring pattern, a way of thinking, acting and communicating that gives some leaders the ability to inspire those around them. The more organisations and people who learn to also start with WHY, the more people there will be who wake up feeling fulfilled by the work they do.
Those who are able to inspire give people a sense of purpose or belonging that has little to do with any external incentive or benefit to be gained. Those who truly lead are able to create a following of people who act not because they were swayed, but because they were inspired. For those who have an open mind for new ideas, who seek to create long-lasting success and who believe that your success requires the aid of others, I offer you a challenge. From now on, start with Why.

PART ONE: WORLD THAT DOESN'T START WITH WHY
The chances are, you're selling a product that someone else is selling, with similar features, at a similar price. So how do we attract customers? Usually, when asked why your customers shop with you, you say it's because of your features or price. So in other words, we have no idea. It's the same with our employees.
There are two ways to influence behaviour: inspire or manipulate. We manipulate the whole time – sales, promotions etc… Manipulation works! Prices, promotions, fear, aspirations, novelty and peer pressure are all used to manipulate and motivate a purchase. All of these techniques work, but none of them is sustainable. They are short-term wins and don't encourage loyalty. In terms of leadership, they can help you reach the top, but they won't make people follow you.
"Leadership is the ability to rally people not for a single event, but for years. In business, leadership means that customers will continue to support your company even when you slip up."
"There is a big difference between repeat business and loyalty. Repeat business is when people do business with you multiple times. Loyalty is when people are willing to turn down a better product or a better price to continue doing business with you. Loyal customers often don't even bother to research the competition or entertain other options. Loyalty is not easily won. Repeat business, however, is. All it takes is more manipulations."
The thing is that all of this manipulation has a cost and isn't sustainable.

PART TWO: AN ALTERNATIVE PERSPECTIVE
The Golden Circle.
There are a few leaders who choose to inspire rather than manipulate in order to motivate people. Whether individuals or organisations, every single one of these inspiring leaders thinks, acts and communicates exactly the same way. And it's the complete opposite of the rest of us. Consciously or not, how they do it is by following a naturally occurring pattern that Sinek calls 'The Golden Circle'.
The Golden Circle shows how these leaders were able to inspire action instead of manipulating people to act.

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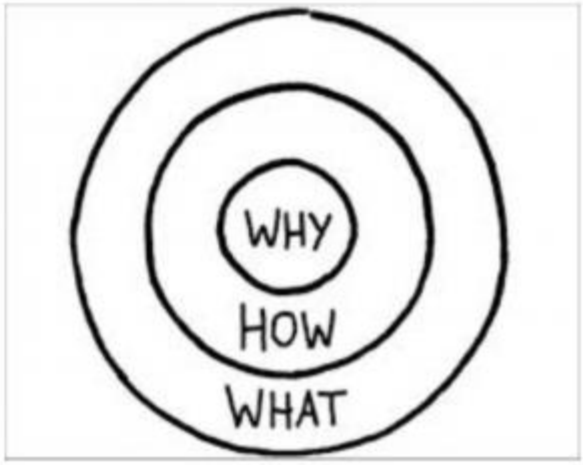

- WHAT: Every company in the world knows what they do. i.e. They can describe their product or service.
- HOW: Some companies know how they do what they do. They know how they're different i.e. A unique selling point.
- WHY: Very few companies know why they do what they do (and it's not to make money, this is a result). Why do you get out of bed in the morning, what is the company's purpose, and why should anyone care?

Normal companies communicate to their from the outside in and then have some call to action: this is what we do, and this is how we do it. e.g. If Apple was like everyone else, they would sound like this: "We make great computers. They're beautifully designed and easy to use. Wanna buy one?"
Inspiring companies start with why. There's no trickery or manipulation, they just reverse the order of the information. e.g. In everything that we do, we believe in challenging the status quo and thinking differently. The way we do this is to design products that are beautifully designed and easy to use. We just so happen to make great computers. Wanna buy one?
In fact, they're not really reversing here information because they start with why all the time. They think and communicate differently. The 'why' engages us emotionally while the 'what' and 'how' serve as evidence of the belief.
Other companies can copy what you do or how you do it. But they will never be the same if they don't start with why. **People don't buy 'what' you do, they buy 'why' you do it.**

Sinek talks about the launch of the first Apple iPod. Creative told us a "5GB MP3 player" whereas Apple said "1,000 songs in your pocket".
The problem was, they advertised their product as a "5GB mp3 player." It is exactly the same message as Apple's "1,000 songs in your pocket." The difference is Creative told us WHAT their product was and Apple told us WHY we needed it.
Only later, once we decided we had to have an iPod, did the WHAT matter—and we chose the 5GB version, 10GB version, and so on, the tangible details that proved we could get the 1,000 songs in our pocket. Our decision started with WHY, and so did Apple's offering.

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Dell defined itself by what it did; make computers. So when they tried making MP3 players, they flopped, because people didn't feel like they could buy an MP3 player from a computer company. But Apple, which defines itself by 'why' they do it, was able to make an MP3 player, phones and tablets. When you start with 'why', features and what you do doesn't matter as much. Your goal is to attract people who believe in your why. You don't need the how to differentiate from the competition. "It's not a debate about better or worse anymore, it's a discussion about different needs. And before the discussion can even happen, the WHYs for each must be established first."

Let's imagine a company a company in the late 1800s that makes trains and railroads. If they define themselves by what they do, they would continue making trains and ignore the development of aircraft and die out. If they define themselves by 'why' they do it; to transport mass amounts of people, maybe they would have led the development of the aeroplane and be a major airline today.

- This is Not Opinion, This is Biology
- As humans, we crave a sense of belonging. It's in our DNA and we do this to survive (because we had to in the dinosaur days). This feeling comes from having a common set of beliefs and values. Now when a company starts with what, yes, there may be a sense of appeal. But when they start with why, and we share their beliefs, we feel this sense of belonging and their product becomes a symbol of our beliefs.

The power of WHY is not opinion, it's biology. If you look at a cross-section of the human brain, from the top down, you see that the levels of The Golden Circle correspond precisely with the three major levels of the brain.

1. The neocortex corresponds to the what. This is where relational thought and analytical thinking come from.
2. The limbic brain corresponds to the how and why. This is where feelings and emotions come from and is also where decisions are made. This part of the brain has no control over language, that's why it can be hard to describe our feelings.

Because we can't put these feelings into words, we are forced to rationalise decisions with the evidence we have (the 'what').
When you communicate from the outside – in, you can give all the facts and figures, but you haven't engaged the decision-making part of the brain. That's why people get the feeling of something 'not feeling right' even though something feels rational.
When you communicate from the inside – out, you're talking directly to the part of the brain that controls decision-making. Then the language part of the brain, the neocortex will rationalise the emotion or feeling for us.
"Gut decisions" and "thinking from the heart" actually all happen in the limbic brain. Companies that fail to communicate a sense of WHY force us to make decisions with only empirical evidence. This is why those decisions take more time, feel difficult or leave us uncertain.

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“Even the saying ‘winning hearts and minds’ and not ‘minds and hearts’ is our brains telling us to start with why.”

The limbic brain is so powerful, that it often outweighs rational thought. This is where innovation comes from and it’s why we take risks that seem illogical. This is why people will pay more money for a Mac even though it’s often less powerful that a cheaper PC. They do it for themselves because the Mac is a symbol of who they are and how they like to be seen. Think about it – that’s why the Apple logo is upside down to the user and the right way round for everyone else…
Clarity, Discipline & Consistency.

Starting with WHY is just the beginning. There is still work to be done before a person or an organisation earns the right or ability to inspire. For The Golden Circle to work, each of the pieces must be in balance and in the right order.

- **Clarity of WHY –** If a leader can’t clearly explain why the organisation does what it does, how can anyone be inspired by this? The ‘why’ must be clearly articulated.
- **The discipline of HOW –** Finding your ‘why’ is the easy part. Holding yourself true to this and sticking to how you achieve your why is the hard part. It requires discipline.
- **Consistency of WHAT –** ‘Why; is just a belief. The ‘how’ is how you achieve the belief and what you say and do is the proof of your belief. If you are consistent with what you say and do, you will become more authentic. This builds trust and loyalty. If you have no why, it’s almost impossible to build this authenticity, as you have no beliefs to prove.

It is a false assumption that differentiation happens in HOW and WHAT you do. Simply offering a high-quality product with more features or better service or a better price does not create a difference. Doing so guarantees no success. Differentiation happens in WHY and HOW you do it.
The Golden Circle provides a way to communicate consistently with how individuals receive information. For this reason, an organisation must be clear about its purpose, cause or belief and make sure that everything they say and do is consistent with and authentic to that belief. If the levels of The Golden Circle are in balance, all those who share the organisation’s view of the world will be drawn to it and its products like a moth to a light bulb.

PART THREE: LEADERS NEED A FOLLOWING
As members of the human race, we are attracted to those who have the same values and beliefs as us i.e. We are attracted to cultures where our values and beliefs align with it. When we believe the same things, trust emerges. This is what allowed us to leave our families behind to go and hunt, knowing they would be protected by the people who share our beliefs. When we recruit employees, we should recruit people who believe what we believe so that we can trust one another, instead of hiring purely

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based on skills and experience. In order for leaders to build a following, they must be trusted.

The Emergence of Trust.
Trust is not a checklist. Fulfilling all your responsibilities does not create trust. Trust is a feeling, not a rational experience. We trust some people and companies even when things go wrong, and we don't trust others even though everything might have gone exactly as it should have.

You have to earn trust by communicating and demonstrating that you share the same values and beliefs. You have to talk about your WHY and prove it with WHAT you do. Again, a WHY is just a belief, 'HOWs' are the actions we take to realise that belief, and the 'WHATs' are the results of those actions. When all three are in balance, trust is built and value is perceived.

When you hire people who believe what you believe, success just happens. You don't hire for skills, you hire for attitude. You can always teach skills. I.e. Attitudes that align with your culture.

The goal is to hire those who are passionate about your WHY, your purpose, cause or belief, and who have the attitude that fits your culture.

Great companies don't hire skilled people and motivate them, they hire already motivated people and inspire them. People are either motivated or they are not. Unless you give motivated people something to believe in, something bigger than their job to work toward, they will motivate themselves to find a new job and you'll be stuck with whoever's left.

Figure out why your good employees are good fits, then develop systems to find more of them. Great companies don't hire skilled people and motivate them, they hire already motivated people and inspire them. People are either motivated or they are not. Unless you give motivated people something to believe in, something bigger than their job to work toward, they will motivate themselves to find a new job and you'll be stuck with whoever's left.

We trust people who will fit in our communities. If you think of hiring a babysitter, you're more likely to hire a local teen than an old, more experienced person who is new in town. Because they are part of your community, you trust them. Why is it that we take the opposite approach in business?

Only when individuals can trust the culture or organisation will they take personal risks in order to advance that culture or organisation as a whole. For no other reason than, in the end, it's good for their own personal health and survival.

Great organisations become great because the people inside the organisation feel protected. The strong sense of culture creates a sense of belonging and acts like a net. People come to work knowing that their bosses, colleagues and the organisation as a whole will look out for them.

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How a Tipping Point Tips
According to the Law of Diffusion, mass-market success can only be achieved after you penetrate between 15 percent to 18 percent of the market. That's because the early majority won't try something new until someone else has tried it first.

The ability to get the system to tip is the point at which the growth of a business or the spreading of an idea starts to move at an extraordinary pace. It is also at this point that a product gains mass-market acceptance.

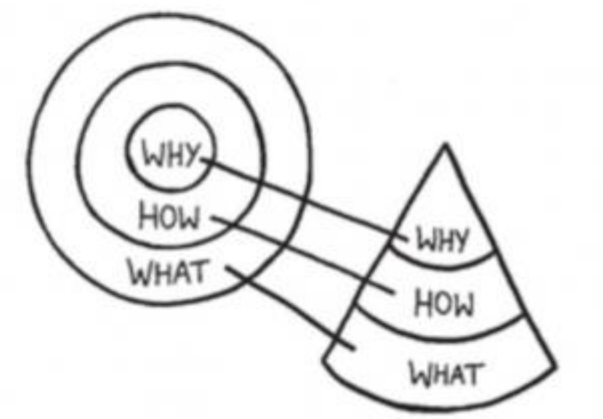
The goal of business then should not be to simply sell to anyone who wants what you have—the majority—but rather to find people who believe what you believe, the left side of the bell curve. They perceive greater value in what you do and will happily pay a premium or suffer some sort of inconvenience to be a part of your cause.

It is the percentage of people who share your beliefs and want to incorporate your ideas, your products and your services into their own lives as WHAT's to their own WHYs."

Get enough of the people on the left side of the curve on your side and they encourage the rest to follow.

You don't just want any influencer, you want someone who believes what you believe. Only then will they talk about you without any prompts or incentives. If they truly believe in what you believe and if they are truly on the left side of the curve they won't need to be incentivised; they'll do it because they want to. The entire act of incentivising an influencer is manipulative. It renders the influencer completely inauthentic to his or her group.

PART FOUR: HOW TO RALLY THOSE WHO BELIEVE
Start with Why, But Know How



The Golden Circle is actually a bird's eye view of a cone which represents the three-dimensional structure of organisations. When you have a belief, and a 'why', your 'what' is just one of the ways of bringing that 'why' to life. Often people don't know what they're going to do. They know what they believe, and they find their 'what' along the way. e.g. Simon Sinek believes in inspiring others. Writing a book is just one way of inspiring others.

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The leader sits at the top of the cone—at the start, the point of WHY—while the HOW-types sit below and are responsible for actually making things happen. The leader imagines the destination and the HOW-types find the route to get there."

- WHY-types are optimists and see things others can't. They are visionary and see how they think the world should be.
- HOW-types are more in the here and now. They're more rational and can get things done.

Each type needs the other.
When you look at any billion-dollar company, it is usually characterised by a partnership between a Why and How type of person. e.g. Steve Jobs was the visionary behind Apple, but Steve Wozniak was the how who made it happen. This relationship defines the difference between a vision and a mission statement. The vision is the purpose, whereas the mission is how the company will work towards its vision.
It's no coincidence that the three-dimensional Golden Circle is a cone. It is, in practice, a megaphone. An organisation effectively becomes the vessel through which a person with a clear purpose, cause or belief can speak to the outside world. But for a megaphone to work, clarity must come first. Without a clear message, what will you amplify?

Companies like Apple and Virgin innovate in any industry they like. They're not companies, more like social movements. They create change. Know Why. Know How. Then What?

To put it bluntly, the struggle that so many companies have to differentiate or communicate their true value to the outside world is not a business problem, it's a biology problem. We use symbols. We create tangible things for those who believe what we believe to point to and say, "That's why I'm inspired." If done properly, that's what marketing, branding and products and services become; a way for organisations to communicate to the outside world. Communicate clearly and you shall be understood.

If WHAT you do doesn't prove what you believe, then no one will know what your WHY is and you'll be forced to compete on price, service, quality, features and benefits; the stuff of commodities. It is not just WHAT or HOW you do things that matters; what matters more is that WHAT and HOW you do things are consistent with your WHY. Only then will your practices indeed be best.

The celery test – imagine a range of friends say: you know what you need in your business: Oreos, rice milk, M&Ms and celery. You go to the supermarket and buy them all and you end up spending more than you need to. Plus, people in the queue are confused by you as you have such a mix of products. Instead, if you go to the supermarket and you believe in healthy living, you only buy rice milk and celery. As a result, you spend less money and the people in the queue can clearly see what you stand for. Your why allows you to filter people's advice and new information you receive. i.e. It has to pass the celery test.

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PART FIVE: THE BIGGEST CHALLENGE IS SUCCESS.

When Why Goes Fuzzy

Walmart began with the intention, the 'why', to help and serve people. They did this using a discounting method of selling goods. However, along the way, they lost sense of their 'why' and forgot their purpose. They stopped caring about their employees. No one could explain what happened, it's a feeling in the part of the brain that has no capacity for language. So we blame size and money.

- Simon recalls attending the Gathering of Titans where America's most successful entrepreneurs gather together. 80% have achieved their financial goals! although 80% didn't feel successful. As their companies had grown, they had lost a sense of their 'why'. They still knew what they did and how they did it, but their why had gone fuzzy. And of course, this was difficult to put into words.
- Achievement is something you reach or attain, like a goal. It is something tangible, clearly defined and measurable. Success, in contrast, is a feeling or a state of being. "She feels successful. She is successful," we say, using the verb to be to suggest this state of being". "In my vernacular, achievement comes when you pursue and attain WHAT you want. Success comes when you are clear in pursuit of WHY you want it.
- "More importantly, some people, while in pursuit of success, simply mistake WHAT they achieve as the final destination. This is the reason they never feel satisfied no matter how big their yacht is, no matter how much they achieve." "For great leaders, The Golden Circle is in balance. They are in pursuit of WHY, they hold themselves accountable to HOW they do it and WHAT they do serves as the tangible proof of what they believe."

Split Happens.

All organisations that go through the split, they are no longer inspired by a cause greater than themselves. They simply come to work, manage systems and work to reach certain preset goals. There is no longer a cathedral to build. The passion is gone and inspiration is at a minimum. They are focused too much on the how and what.

The volume of the megaphone comes solely from the growth of WHAT. As this metric grows, any company can become a

”leading“ company. But it is the ability to inspire, to maintain clarity of WHY that gives only a few people and organisations the ability to lead. The moment at which the clarity of WHY starts to go fuzzy is the split.

Use the school bus test. If the founder were to get hit by a bus and die, would the business be affected? The challenge isn’t to cling on to the leader forever, but to find a way of keeping the vision alive and clear.

Most organisations today use very clear metrics to track the progress and growth of WHAT they do—usually, it’s money. Unfortunately, we have very poor measurements to ensure that a WHY stays clear. Instead of measuring revenue, measure things like positive customer feedback and work-life balance e.g. Clock out before 5:30 pm.

PART SIX: DISCOVER WHY

The Origins of a Why.

The WHY does not come from looking ahead at what you want to achieve and figuring out an appropriate strategy to get there. It is not born out of any market research. It does not come from extensive interviews with customers or even employees. It comes from looking in the completely opposite direction from where you are now. Finding WHY is a process of discovery, not invention.

Learning the WHY of a company or an organisation or understanding the WHY of any social movement always starts with one thing: you.

An organization’s why comes from the founder and their beliefs. This is often something they believe long before their organisation exists. It’s a cause that drives them constantly.

The New Competition.

When you compete against everyone else, no one wants to help you. But when you compete against yourself, everyone wants to help you. Those who forget WHY they were founded show up to the race every day to outdo someone else instead of outdoing themselves.

Leadership requires two things: a vision of the world that does not yet exist and the ability to communicate it.

Final Word.

The concept of starting with why applies to all businesses in the broadest sense. Services, tourist destinations, countries, and even careers can benefit from a well-developed understanding of the ‘why’ in their business.

Happy reading

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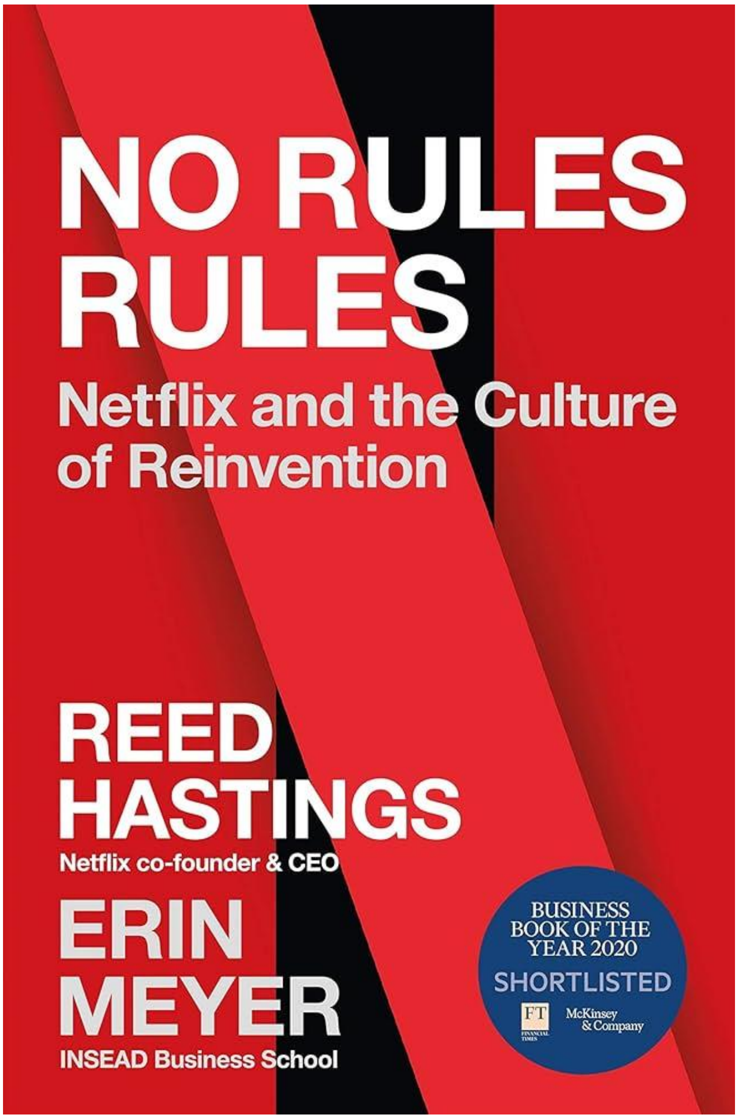

NO RULES RULES

Netflix and the Culture of Reinvention

Book Summary Curated By Guillermo Flor

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The Book in 3 Sentences

1. Creating an innovative culture requires a different set of procedures and policies that we need to wake up to.
2. Giving employees more freedom and responsibility is pivotal in increasing their accountability, increasing creative ideas and becoming fast-paced.
3. There are a set of ideas and principles that can be followed to create this.

Impressions

Straight away from the moving opening few pages, you begin to realise just how transformational, innovative and forward-thinking Netflix has been, and how this stems from their culture.

This book, although useful for business owners who want to create an innovative culture, lacks depth and variety. It almost focuses too much on the idea of culture instead of giving a more broader view of Netflix as a company and some of their unique practices outside the specifics relating to their culture ideas.

The layout and design of the book is interesting. It takes a unique approach with bullet points, diagrams and gives instructions in how to create a similar culture in your own organisation.

How I Discovered It

Having read the Netflix book, That Will Never Work, followed the Netflix story including the renowned Netflix Deck, this seemed like a perfect book to read.

Who Should Read It?

If you run a company and want an innovative, forward-thinking culture. If you are interested in the what makes the Netflix culture special.

My Top 3 Quotes

In a fast and innovative company, ownership of critical, big-ticket decisions should be dispersed across the workforce at all different levels, not allocated according to hierarchical status.

A fast and innovative workplace is made up of what we call “stunning colleagues”—highly talented people, of diverse backgrounds and perspectives, who are exceptionally creative, accomplish significant amounts of important work, and collaborate effectively.

If you give employees more freedom instead of developing processes to prevent them from exercising their own judgment, they will make better decisions and it’s easier to hold them accountable.

Summary + Notes

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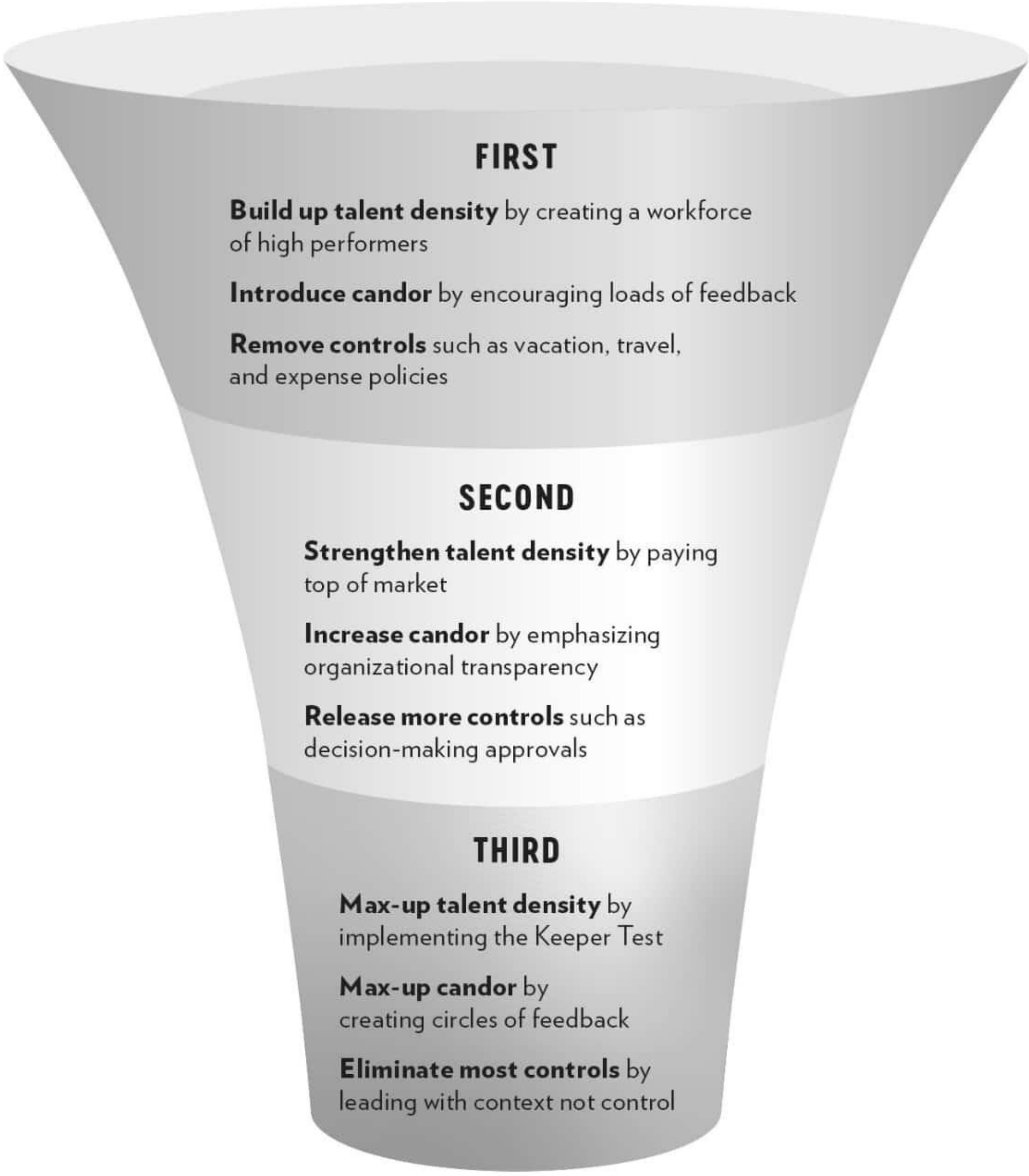

<u>The Key Elements:</u>

Build up talent density

At most companies, policies and control processes are put in place to deal with employees who exhibit sloppy, unprofessional, irresponsible behaviour. But if you avoid or move out these people, you don't need the rules. If you build an organisation made up of high performers, you can eliminate most controls. The denser the talent, the greater the freedom you can offer.

Increase candor

Talented employees have an enormous amount to learn from one another, But normal polite protocols prevent employees from providing necessary feedback to take performance to the next level. When talented staff members get into the feedback habits, they all get better at what they do and become accountable to one another.

Reduce controls

Start ripping up the employee handbook. As talent becomes denser, feedback more frequent and candid, you can remove approval processes throughout the organisation. Teach managers 'lead with context, not control' and coaching employees with guidelines like 'don't seek to please your boss'

1. First Build Up Talent Density: A Great Workplace Is Stunning Colleagues

Your number one goal as a leader is to develop a work environment consisting exclusively of stunning colleagues.

Stunning colleagues accomplish significant amounts of important work and are exceptionally creative and passionate.

Jerks, slackers, sweet people with non-stellar performance, or pessimists left on the team will bring down the performance of everyone.

2. Then Increase Candor: Say What You Really Think (with Positive Intent)

With candor, high performers become outstanding performers. Frequent candid feedback exponentially magnifies the speed and effectiveness of your team or workforce.

Set the stage for candor by building feedback moments into your regular meetings.

Coach your employees to give and receive feedback effectively, following the 4A guidelines (aim to assist; actionable; appreciate; accept or discard)

As the leader, solicit feedback frequently and respond with belonging cues when you receive it.

Get rid of jerks as you instill a culture of candor. With talent density and candor in place, you are ready to begin releasing controls and offering more workplace freedom.

3b. Now Begin Removing Controls: Remove Travel and Expense Approvals

When removing your vacation policy, explain that there is no need to ask for prior approval and that neither the employees themselves nor their managers are expected to keep track of their days away from the office.

It is left to the employee alone to decide if and when he or she feels like taking a few hours, a day, a week, or a month off work.

When you remove the vacation policy, it will leave a hole. What fills the hole is the context the boss provides for the team.

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Copious discussions must take place, setting the scene for how employees should approach vacation decisions. The practices modeled by the boss will be critical to guide employees as to the appropriate behavior. An office with no vacation policy but a boss who never vacations will result in an office that never vacations.

3b. Remove Travel and Expense Approvals

When removing travel and expense policies, encourage managers to set context about how to spend money up front and to check employee receipts at the back end.

If people overspend, set more context. With no expense controls, you'll need your finance department to audit a portion of receipts annually.

When you find people abusing the system, fire them and speak about the abuse openly—even when they are star performers in other ways. This is necessary so that others understand the ramifications of behaving irresponsibly.

Some expenses may increase with freedom. But the costs from overspending are not nearly as high as the gains that freedom provides.

With expense freedom, employees will be able to make quick decisions to spend money in ways that help the business.

Without the time and administrative costs associated with purchase orders and procurement processes, you will waste fewer resources.

Many employees will respond to their new freedom by spending less than they would in a system with rules. When you tell people you trust them, they will show you how trustworthy they are.

4. Fortify Talent Density: Pay Top of Personal Market

The methods used by most companies to compensate employees are not ideal for a creative, high-talent-density workforce.

Divide your workforce into creative and operational employees. Pay the creative workers top of market.

This may mean hiring one exceptional individual instead of ten or more adequate people. Don't pay performance-based bonuses.

Put these resources into salary instead. Teach employees to develop their networks and to invest time in getting to know their own—and their teams'—market value on an ongoing basis. This might mean taking calls from recruiters or even going to interviews at other companies. Adjust salaries accordingly.

5. Pump Up Candor: Open the Books

To instigate a culture of transparency, consider what symbolic messages you send. Get rid of closed offices, assistants who act as guards, and locked spaces.

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Open up the books to your employees. Teach them how to read the P&L. Share sensitive financial and strategic information with everyone in the company.

When making decisions that will impact your employees' well-being, like reorganisations or layoffs, open up to the workforce early, before things are solidified. This will cause some anxiety and distraction, but the trust you build will outweigh the disadvantages.

When transparency is in tension with an individual's privacy, follow this guideline: If the information is about something that happened at work, choose transparency and speak candidly about the incident. If the information is about an employee's personal life, tell people it's not your place to share and they can ask the person concerned directly if they choose.

As long as you've already shown yourself to be competent, talking openly and extensively about your own mistakes—and encouraging all your leaders to do the same—will increase trust, goodwill, and innovation throughout the organisation.

6. Now Release More Controls: No Decision-Making Approvals Needed

In a fast and innovative company, ownership of critical, big-ticket decisions should be dispersed across the workforce at all different levels, not allocated according to hierarchical status.

In order for this to work the leader must teach her staff the Netflix principle, "Don't seek to please your boss." When new employees join the company, tell them they have a handful of metaphorical chips that they can make bets with.

Some gambles will succeed, and some will fail. A worker's performance will be judged on the collective outcome of his bets, not on the results from one single instance.

To help your workforce make good bets, encourage them to farm for dissent, socialise the idea, and for big bets, test it out.

Teach your employees that when a bet fails, they should sunshine it openly.

7. Max Up Talent Density: The Keeper Test

In order to encourage your managers to be tough on performance, teach them to use the Keeper Test: "Which of my people, if they told me they were leaving for a similar job at another company, would I fight hard to keep?"

Avoid stack-ranking systems, as they create internal competition and discourage collaboration. For a high-performance culture, a professional sports team is a better metaphor than a family. Coach your managers to create strong feelings of commitment, cohesion, and camaraderie on the team, while continually making tough decisions to ensure the best player is manning each post.

When you realise you need to let someone go, instead of putting him on some type of PIP, which is humiliating and organisationally costly, take all that money and give it to the employee in the form of a generous severance payment.

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The downside to a high-performance culture is the fear employees may feel that their jobs are on the line. To reduce fear, encourage employees to use the Keeper Test Prompt with their managers: “How hard would you work to change my mind if I were thinking of leaving?”

When an employee is let go, speak openly about what happened with your staff and answer questions candidly. This will diminish their fear of being next and increase their trust in the company and managers.

8. Max Up Candor: A Circle of Feedback

Candor is like going to the dentist. Even if you encourage everyone to brush daily, some won’t do it. Those who do may still miss the uncomfortable spots. A thorough session every six to twelve months ensures clean teeth and clear feedback.

Performance reviews are not the best mechanism for a candid work environment, primarily because the feedback usually goes only one way (down) and comes from only one person (the boss).

A 360 written report is a good mechanism for annual feedback. But avoid anonymity and numeric ratings, don’t link results to raises or promotions, and open up comments to anyone who is ready to give them.

Live 360 dinners are another effective process. Set aside several hours away from the office. Give clear instructions, follow the 4A feedback guidelines, and use the Start, Stop, Continue method with roughly 25 percent positive, 75 percent developmental—all actionable and no fluff.

9. Eliminate Most Controls: Lead with Context, Not Control

In order to lead with context, you need to have high talent density, your goal needs to be innovation (not error prevention), and you need to be operating in a loosely coupled system.

Once these elements are in place, instead of telling people what to do, get in lockstep alignment by providing and debating all the context that will allow them to make good decisions.

When one of your people does something dumb, don’t blame that person. Instead, ask yourself what context you failed to set. Are you articulate and inspiring enough in expressing your goals and strategy? Have you clearly explained all the assumptions and risks that will help your team to make good decisions? Are you and your employees highly aligned on vision and objectives?

A loosely coupled organisation should resemble a tree rather than a pyramid. The boss is at the roots, holding up the trunk of senior managers who support the outer branches where decisions are made.

You know you’re successfully leading with context when your people are moving the team in the desired direction by using the information they’ve received from you and those around you to make great decisions themselves.

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10. Going Global: Bring It All to the World!

Map out your corporate culture and compare it to the cultures of the countries you are expanding into. For a culture of F&R, candor will need extra attention.

In less direct countries, implement more formal feedback mechanisms and put feedback on the agenda more frequently, because informal exchanges will happen less often.

With more direct cultures, talk about the cultural differences openly so the feedback is understood as intended.

Make Adaptability the fifth A of your candor model. Discuss openly what candor means in different parts of the world. Work together to discover how both sides can adapt to bring this value to life.

Conclusion:
The Industrial Revolution has powered most of the world's successful economies for the past three hundred years. So it's only natural that the management paradigms from high-volume, low-error manufacturing have come to dominate business organisational practices.

In a manufacturing environment, you are trying to eliminate variation, and most management approaches have been designed with this in mind. It really is a sign of excellence when a company manages to produce a million doses of penicillin or ten thousand identical automobiles with no errors. Perhaps that's why, during the industrial era, many of the best companies operated like symphonic orchestras, with synchronicity, precision, and perfect coordination as the goal. Instead of a musical score and a conductor, it was processes and policies that guided their work.

Even today, if you are running a factory, managing a safety-critical environment, or you want the same thing produced identically with great reliability, a rules-and-process symphony is the way to go. Even at Netflix we have pockets of the company where safety and error prevention are our primary goals and there we fence off an area to build a little symphony orchestra that plays pitch-perfect rules-and-process.

In today's information age, in many companies and on many teams, the objective is no longer error prevention and replicability. On the contrary, it's creativity, speed, and agility. In the industrial era, the goal was to minimise variation. But in creative companies today, maximising variation is more essential. In these situations, the biggest risk isn't making a mistake or losing consistency; it's failing to attract top talent, to invent new products, or to change direction quickly when the environment shifts.

Consistency and repeatability are more likely to squash fresh thinking than to bring your company profit. A lot of little mistakes, while sometimes painful, help the organisation learn quickly and are a critical part of the innovation cycle. In these situations, rules and process are no longer the best answer. A symphony isn't what you're going for. Leave the conductor and the sheet music behind. Build a jazz band instead.

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Jazz emphasises individual spontaneity. The musicians know the overall structure of the song but have the freedom to improvise, riffing off one another other, creating incredible music.

Of course, you can't just remove the rules and processes, tell your team to be a jazz band, and expect it to be so. Without the right conditions, chaos will ensue. But now, after reading this book, you have a map. Once you begin to hear the music, keep focused. Culture isn't something you can build up and then ignore.

At Netflix, we are constantly debating our culture and expecting it will continually evolve. To build a team that is innovative, fast, and flexible, keep things a little bit loose. Welcome constant change. Operate a little closer toward the edge of chaos. Don't provide a musical score and build a symphonic orchestra. Work on creating those jazz conditions and hire the type of employees who long to be part of an improvisational band. When it all comes together, the music is beautiful.

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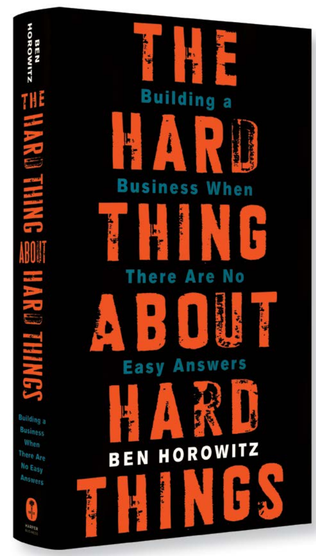
Entrepreneurship

The Hard Thing About Hard Things

Building a Business When There Are No Easy Answers



by Ben Horowitz

THE SUMMARY IN BRIEF

While many people talk about how great it is to start a business, very few are honest about how difficult it is to run one. In *The Hard Thing About Hard Things*, Ben Horowitz, cofounder of Andreessen Horowitz and one of Silicon Valley's most respected and experienced entrepreneurs, offers essential advice on building and running a startup — practical wisdom for managing the toughest problems business school doesn't cover, based on his popular "Ben's Blog."

Horowitz analyzes the problems that confront leaders every day, sharing the insights he's gained developing, managing, selling, buying, investing in and supervising technology companies. He also amplifies business lessons by telling it straight about everything from firing friends to poaching competitors, cultivating and sustaining a CEO mentality to knowing the right time to cash in.

Filled with Horowitz's trademark humor and straight talk and drawing from his personal and often humbling experiences, *The Hard Thing About Hard Things* is invaluable for veteran entrepreneurs as well as those aspiring to their own new ventures.

IN THIS SUMMARY, YOU WILL LEARN:

- Techniques for navigating the struggle of being a leader.
- The right way to hire and the right way to lay people off.
- Why you should take care of the people, the products and the profits, in that order.
- How to lead even when you don't know where you're going.

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THE COMPLETE SUMMARY: THE HARD THING ABOUT HARD THINGS

by Ben Horowitz

The author: Ben Horowitz is the cofounder and general partner of Andreessen Horowitz, a Silicon Valley-based venture capital firm that invests in entrepreneurs building the next generation of leading technology companies. The firm's investments include Airbnb, GitHub, Facebook, Pinterest and Twitter.

The Hard Thing About Hard Things: Building A Business When There are No Easy Answers by Ben Horowitz. Copyright 2014 by Ben Horowitz. Summarized by permission of the publisher, HarperBusiness. 304 pages, $29.99, ISBN 978-0-06-227320-8. To purchase this book go to www.amazon.com or www.bn.com. Summary Copyright © 2014 by Soundview Executive Book Summaries®. www.summary.com, 1-800-SUMMARY. For additional information on the author, follow him on Twitter @bhorowitz, or read his blog at www.bhorowitz.com.

Introduction

Every time I read a management or self-help book, I find myself saying, "That's fine, but that wasn't really the hard thing about the situation." The hard thing isn't setting a big, hairy, audacious goal. The hard thing is laying people off when you miss the big goal. The hard thing isn't hiring great people. The hard thing is when those "great people" develop a sense of entitlement and start demanding unreasonable things. The hard thing isn't dreaming big. The hard thing is waking up in the middle of the night in a cold sweat when the dream turns into a nightmare.

The problem with those books is that they attempt to provide a recipe for challenges that have no recipes. There's no recipe for really complicated dynamic situations. There's no recipe for building a high-tech company; there's no recipe for leading a group of people out of trouble; there's no recipe for running for president; and there's no recipe for motivating teams when your business has turned to crap. That's the hard thing about hard things — there is no formula for dealing with them.

Nonetheless, there are many bits of advice and experience that can help with the hard things.

When Things Fall Apart

People always ask, "What's the secret to being a successful CEO?" Sadly, there is no secret, but if there is one skill that stands out, it's the ability to focus and make the best move when there are no good moves. It's the moments where you feel most like hiding or dying that you can make the biggest difference as a CEO.

The Struggle

Every entrepreneur starts a company with a clear vision for success. You will create an amazing environment and hire the smartest people to join you. Together you will build a beautiful product that delights customers and makes the world just a little bit better. It's going to be absolutely awesome.

Then, after working night and day to make your vision a reality, you wake up to find that things did not go as planned. Your company did not unfold like you planned. Your product has issues that will be very hard to fix. The market isn't quite where it was supposed to be. Your employees are losing confidence, and some of them have quit. Where did you go wrong?

As your dreams turn into nightmares, you find yourself in *the Struggle*. The Struggle is when you wonder why you started the company in the first place. The Struggle is when people ask you why you don't quit, and you don't know the answer. The Struggle is when your employees think you are lying, and you think they may be right. The Struggle is when you know that you are in over your head, and you know that you cannot be replaced. The Struggle is not failure, but it causes failure. Especially if you are weak.

The Struggle is where greatness comes from.

There is no answer to the Struggle, but here are some things that might help:

Don't put it all on your shoulders. You won't be able to share every burden, but share every burden that you can. Get the maximum number of brains on the problems even if the problems represent existential threats.

This is not checkers; this is chess. Technology businesses tend to be extremely complex. The underlying

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technology moves, the competition moves, the market moves, the people move. As a result, there is always a move.

Play long enough and you might get lucky. In the technology game, tomorrow looks nothing like today. If you survive long enough to see tomorrow, it may bring you the answer that seems so impossible today.

Don't take it personally. The predicament that you are in is probably all your fault. You hired the people. You made the decisions. But evaluating yourself and giving yourself an F doesn't help.

Remember that this is what separates the women from the girls. If you want to be great, this is the challenge. If you don't want to be great, then you never should have started a company.

CEOs Should Tell It Like It Is

As the highest-ranking person in the company, you think that you are best able to handle bad news. The opposite is true; nobody takes bad news harder than you. If things go horribly wrong, others can walk away, but you can't. As a consequence, employees handle losses much better.

There are three key reasons why being transparent about your company's problems makes sense:

Trust. Without trust, communication breaks. As a company grows, communication becomes its biggest challenge. Telling things as they are is a critical part of building this trust. A CEO's ability to build this trust over time is often the difference between companies that execute well and companies that are chaotic.

The more brains working on the hard problems, the better. In order to build a great technology company, you have to hire lots of incredibly smart people. It's a total waste to have lots of big brains but not let them work on your biggest problems.

A good culture is like the old RIP routing protocol: Bad news travels fast; good news travels slow. If you investigate companies that have failed, you will find that many employees knew about the fatal issues long before those issues killed the company. Too often the company culture discouraged the spread of bad news, so the knowledge lay dormant until it was too late to act.

If you run a company, you will experience overwhelming psychological pressure to be overly positive. Stand up to the pressure, face your fear and tell it like it is.

The Right Way to Lay People Off

How can you do something that's fundamentally wrong in "the right way"?

Step 1: Get Your Head Right. When a company fails to hit its financial plan so severely that it must fire the employees it went to great time and expense to hire, it weighs heavily on the chief executive. During a time like this, it is difficult to focus on the future, because the past overwhelms you — but that's exactly what you must do.

Step 2: Don't Delay. Once you decide that you will have to lay people off, the time elapsed between making that decision and executing that decision should be as short as possible. If word leaks (which it will inevitably if you delay), then you will be faced with an additional set of issues. Employees will question managers and ask whether a layoff is coming. If the managers don't know, they will look stupid. If the managers do know, they will either have to lie to their employees, contribute to the leak or remain silent, which will create additional agitation.

Step 3: Be Clear in Your Own Mind About Why You are Laying People Off. You are laying people off because the company failed to hit its plan. If individual performance were the only issue, then you'd be taking a different measure. This distinction is critical, because the message to the company and the laid-off individuals should not be "This is great, we are cleaning up performance." The message must be "The company failed and in order to move forward, we will have to lose some excellent people."

Step 4: Train Your Managers. The most important step in the whole exercise is training the management team. Training starts with a golden rule: Managers must lay off their own people. Why? Because people won't remember every day they worked for your company, but they will surely remember the day you laid them off. They will remember every last detail. The reputations of your company and your managers depend on you standing tall, facing the employees who trusted you and worked hard for you.

Step 5: Address the Entire Company. Prior to executing the layoff, the CEO must address the company. The CEO must deliver the overall message that provides the proper context and air cover for the managers. Keep in mind what former Intuit CEO Bill Campbell said — The message is for the people who are staying. The people who stay will care deeply about how you treat their colleagues.

Step 6: Be Visible, Be Present. After you make the speech telling your company that you will be letting many of them go, you will not feel like hanging out and talking to people. You will probably feel like going to a bar and drinking a fifth of tequila. Do not do this. Be present. Be visible. People want to see you. They want to see whether you care. Talk to people. Let them know that you appreciate their efforts.

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Preparing to Fire an Executive

When you recruit an executive, you paint a beautiful picture of her future in your company. You describe in great depth and in vibrant color how awesome it will be for her to accept your offer and how much better it will be than joining that other company. Then one day you realize you must fire her. The key to correctly firing an executive is preparation. Here is a four-step process that will treat the executive fairly and improve your company.

Step 1: Root Cause Analysis. At this level, almost every company screens for the proper skill set, motivation and track record. Therefore, the first step to properly firing an executive is figuring out why you hired the wrong person for your company. You may have blown it for a variety of reasons:

- You did a poor job defining the position in the first place.
- You hired for lack of weakness rather than for strengths.
- You hired for scale too soon.
- You hired for the generic position.
- The executive had the wrong kind of ambition.
- You failed to integrate the executive.

Once you identify the problem, then you create the basis for the next steps.

Step 2: Informing the Board. You should have three goals with the board:

Get their support and understanding for the difficult task that you will execute. You should start by making sure that they understand the root cause and your plan to remedy the situation. This will give them confidence in your ability to hire and manage outside executives in the future.

Get their input and approval for the separation package. This will be critical for the next step. Executive packages are larger than regular severance packages and rightly so. It takes about ten times longer for an executive to find a new job than it does for an individual contributor.

Preserve the reputation of the fired executive. The failure was very likely a team effort, and it's best to portray it that way. You don't make yourself look good by trashing someone who worked for you. A mature approach to this issue will help keep the board confident in your ability to be CEO. It is also the fair and decent thing to do.

Step 3: Preparing for the Conversation. After you know what went wrong and have informed the board, you should tell the executive as quickly as possible. Three keys to getting it right:

1. **Be clear on the reasons.** You have thought about this long and hard; don't equivocate or sugarcoat it. You owe it to them to be clear about what you think happened.
2. **Use decisive language.** Do not leave the discussion open-ended. This is not a performance review; it's a firing. Use words and phrases like "I have decided" rather than "I think."
3. **Have the severance package approved and ready.** Once the executive hears the news, she will stop caring about the company and its issues; she will be highly focused on herself and her family. Be ready to provide specific details of the package.

Finally, the executive will be keenly interested in how the news will be communicated to the company and to the outside world. It is best to let her decide.

Step 4: Preparing the Company Communication. After you have informed the executive, you must quickly update the company and your staff on the change. The correct order for informing the company is (1) the executive's direct reports — because they will be most impacted; (2) the other members of your staff — because they will need to answer questions about it; and (3) the rest of the company. All of these communications should happen on the same day and preferably within a couple of hours.

When you update the company, you might worry about employees misinterpreting the news and thinking the company is in trouble. Do not try to maneuver around such a reaction. When you expect your employees to act like adults, they generally do.

Every CEO likes to say she runs a great company. It's hard to tell whether the claim is true until the company or the CEO has to do something really difficult. Firing an executive is a good test.

Take Care of the People, the Products and the Profits, in That Order

My old boss Jim Barksdale was fond of saying, "We take care of the people, the products and the profits — in that order." It's a simple saying, but it's deep. "Taking care of the people" is the most difficult of the three by far, and if you don't do it, the other two won't matter. Taking care of the people means that your company is a good place to work. As organizations grow large, important work can go unnoticed, the hardest workers can get passed over by the best politicians, and bureaucratic processes can choke out the creativity and remove all the joy.

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A Good Place to Work

When things go well, the reasons to stay at a company are many:

- Your career path is wide open because as the company grows, lots of interesting jobs naturally open up.
- Your friends and family think you are a genius for choosing to work at the "it" company before anyone else knew it was "it."
- Your resume gets stronger by working at a blue-chip company in its heyday.
- Oh, and you are getting rich.

When things go poorly, all those reasons become reasons to leave. In fact, the only thing that keeps an employee at a company when things go horribly wrong — other than needing a job — is that she likes her job.

Things always go wrong. There has never been a company in the history of the world that had a monotonously increasing stock price. In bad companies, when the economics disappear, so do the employees. Being a good company doesn't matter when things go well, but it can be the difference between life and death when things go wrong. If you do nothing else, build a good company.

Why Startups Should Train Their People

Almost everyone who builds a technology company knows that people are the most important asset. Properly run startups place a great deal of emphasis on recruiting and the interview process in order to build their talent base. Too often the investment in people stops there. There are four core reasons why you should train your people: productivity, performance management, product quality and employee retention.

What should you do first? The best place to start is with the topic that is most relevant to your employees: the knowledge and skill that they need to do their job. I call this functional training. Functional training can be as simple as training a new employee on your expectations for them and as complex as a multi-week engineering boot camp to bring new recruits completely up to speed on all of the historical architectural nuances of your product. The training courses should be tailored to the specific job.

The other essential component is management training. Management training is the best place to start setting expectations for your management team. Do you expect them to hold regular one-on-one meetings with their employees? Do you expect them to give performance feedback? Do you expect them to train their people? Do you expect them to agree on objectives with their team? If you do, then you'd better tell them. Once you've set expectations, the next set of management courses teach your managers how to do the things you expect (how to write a performance review or how to conduct a one-on-one).

Once you have management training and functional training in place, there are other opportunities as well. Take your best people, and encourage them to share their most developed skills. Training in such topics as negotiating, interviewing and finance will enhance your company's competency in those areas as well as improve employee morale.

Ironically, the biggest obstacle to putting a training program in place is the perception that it will take too much time. Keep in mind that there is no investment that you can make that will do more to improve productivity in your company. Therefore, being too busy to train is the moral equivalent of being too hungry to eat.

Hiring Executives: If You've Never Done the Job, How Do You Hire Somebody Good?

The biggest difference between being a great functional manger and being a great general manager — particularly a great CEO — is that as a general manager, you must hire and manage people who are far more competent at their jobs than you would be at their jobs. In fact, often you will have to hire and manage people to do jobs that you have never done. So, with no experience, how do you hire someone good?

Step 1: Know What You Want. First, resist the temptation to educate yourself simply by interviewing candidates. The very best way to know what you want is to act in the role. Not just in title, but in real action. In my career, I've been acting VP of HR, CFO and VP of sales. Often CEOs resist acting in functional roles, because they worry that they lack the appropriate knowledge. This worry is precisely why you should act — to get the appropriate knowledge that you need to make the hire, because you are looking for the right executive for your company today, not a generic executive.

It also helps to bring in domain experts. If you know a great head of sales, interview them first, and learn what they think made them great. Figure out which of those strengths most directly match the needs of your company.

Finally, be clear in your own mind about your expectations for this person upon joining your company. What will this person do in the first 30 days? What do you expect their motivation to be for joining? Do you want them to build a large organization right away or hire only one or two people over the next year?

Step 2: Run a Process That Figures Out the Right Match. In order to find the right executive, you must take

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the knowledge that you have gathered and translate it into a process that yields the right candidate.

- Write down the strengths you want and the weaknesses that you are willing to tolerate.
- Develop questions that test for the criteria.
- Assemble the interview team.
- Backdoor and front-door references. For final candidates, it's critically important that the CEO conduct the reference checks herself. (Backdoor references are checks from people who know the candidate but were not referred by the candidate.)

Step 3: Make a Lonely Decision. Despite many people being involved in the process, the ultimate decision should be made solo. Only the CEO has comprehensive knowledge of the criteria, the rationale for the criteria, all the feedback from interviewers and references, and the relative importance of the various stakeholders. Consensus decisions about executives almost always sway the process away from strength and toward lack of weakness.

Concerning the Going Concern

As a company grows, it will change. No matter how well you set your culture, keep your spirit or slow-roll your growth, your company won't be the same when it's 1,000 people as it was when it was 10 people. But that doesn't mean that it can't be a good company when it reaches 10,000 or even 100,000 employees. It will just be different. Making it good at scale means admitting that it must be different and embracing the changes that you'll need to make to keep things from falling apart.

Titles and Promotions

Why do all organizations eventually create job titles, and what is the proper way to manage them? There are two important factors:

Employees want them. While you may plan to work at your company forever, at least some of your employees need to plan for life after your company. When your head of sales interviews for her next job, she won't want to say that despite the fact that she ran a global sales force with hundreds of employees, her title was "Dude."

Eventually people need to know who is who. As companies grow, everybody won't know everybody else. Importantly, employees won't know what each person does and whom they should work with to get their jobs done. Job titles provide an excellent shorthand for describing roles in the company. In addition, customers and business partners can also make use of this shorthand to figure out how to best work with your company.

Andreessen vs. Zuckerberg: How big should the titles be?

Marc Andreessen argues that people ask for many things from a company: salary, bonus, stock options, span of control and titles. Of those, title is by far the cheapest, so it makes sense to give the highest titles possible. If it makes people feel better, let them feel better. Titles cost nothing.

At Facebook, by contrast, Mark Zuckerberg purposely deploys titles that are significantly lower than the industry standard, to guarantee that every new employee gets re-leveled as they enter his company. In this way, he avoids accidentally giving new employees higher titles and positions than better-performing existing employees. He also wants titles to be meaningful and reflect who has influence in the organization. As a company grows quickly, it's important to provide organizational clarity wherever possible, and that gets more difficult if there are 50 VPs and 10 Chiefs.

In either scenario, you should still run a highly disciplined internal leveling and promotion process.

When Smart People Are Bad Employees

In business, intelligence is always a critical element in any employee, because what we do is difficult and complex, and the competitors are filled with extremely smart people. However, intelligence is not the only important quality. Being effective in a company also means working hard, being reliable and being an excellent member of the team. Here are three examples of the smartest people in the company being the worst employees:

The Heretic: No large organization achieves perfection. As a result, a company needs lots of smart, super-engaged employees who can identify its particular weaknesses and help it improve them. However, sometimes a really smart employee develops an agenda other than improving the company. Rather than identifying weaknesses so that he can fix them, he looks for faults to build his case. The smarter the employee, the more destructive this type of behavior can be. Often, it's very difficult to turn these kinds of cases around.

The Flake: Some brilliant people can be totally unreliable. Flaky behavior often has a seriously problematic root cause. Causes range from self-destructive streaks to drug habits to moonlighting for other employers. A company is a team effort, and no matter how high an employee's potential, you cannot get value from him unless he does his work in a manner in which he can be relied upon.

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The Jerk: This particular smart-bad-employee type can occur anywhere in the organization but is most destructive at the executive level. When used consistently, asinine behavior can be crippling. As a company grows, its biggest challenge always becomes communication. Keeping a huge number of people on the same page executing the same goals is never easy. If a member of your staff is a raging jerk, it may be impossible.

The great football coach John Madden was once asked whether he would tolerate a player like Terrell Owens on his team. Owens was both one of the most talented players in the game and one of the biggest jerks. Madden answered, "If you hold the bus for everyone on the team, then you'll be so late you'll miss the game, so you can't do that. The bus must leave on time. However, sometimes you'll have a player that's so good that you hold the bus for him, but only him."

You may find yourself with an employee who fits one of the descriptions but nonetheless makes a massive positive contribution to the company. You may decide that you will personally mitigate the employee's negative attributes and keep her from polluting the overall company culture. That's fine, but remember: You can only hold the bus for her.

One-on-One

Perhaps the CEO's most important operational responsibility is designing and implementing the communication architecture for her company. While it is quite possible to design a great communication architecture without one-on-one meetings, in most cases one-on-ones provide an excellent mechanism for information and ideas to flow up the organization and should be part of your design.

The key to a good one-on-one meeting is the understanding that it is the employee's meeting rather than the manager's meeting. This is a free-form meeting for all the pressing issues, brilliant ideas and chronic frustration that do not fit neatly into status reports, email and other less personal and intimate mechanisms. If you like structured agendas, then the employee should set the agenda and send it to you in advance.

During the meeting, since it's the employee's meeting, the manager should do 10 percent of the talking and 90 percent of the listening.

While it's not the manager's job to set the agenda or do the talking, the manager should try to draw the key issues out of the employee. The more introverted the employee, the more important this becomes.

Some questions that are very effective in one-on-ones:

- What's the number-one problem with our organization? Why?
- What's not fun about working here?
- What don't you like about the product?

Programming Your Culture

When I refer to company culture, I am writing about designing a way of working that will distinguish you from competitors; ensure that critical operating values persist, such as delighting customers or making beautiful products; and help you identify employees who fit with your mission.

When you start implementing your culture, keep in mind that most of what will be retrospectively referred to as your company's culture will not have been designed into the system but rather will have evolved over time based on your behavior and the behavior of your early employees. As a result, you will want to focus on a small number of cultural design points that will influence a large number of behaviors over a long period of time.

You needn't think hard about how you can make your company seem bizarre to outsiders. However, you do need to think about how you can be provocative enough to change what people do every day. Ideally, a cultural design point will be trivial to implement but have far-reaching behavioral consequences. Key to this kind of mechanism is shock value.

For example, very early on, Jeff Bezos, founder and CEO of Amazon.com, envisioned a company that made money by delivering value *to* rather than extracting value *from* its customers. In order to do that, he wanted to be both the price leader and customer service leader for the long run.

Jeff decided to build frugality into his culture with an incredibly simple mechanism: All desks at Amazon.com for all time would be built by buying cheap doors from Home Depot and nailing legs to them. When a shocked new employee asks why she must work on a makeshift desk, the answer comes back with withering consistency: "We look for every opportunity to save money so that we can deliver the best products for the lowest cost." If you don't like sitting at a door, then you won't last long at Amazon.

Prior to figuring out the exact form of your company's shock therapy, be sure that your mechanism agrees with your values. For example, Jack Dorsey will never make his own desks out of doors at Square because at Square, beautiful design trumps frugality. When you walk into Square, you can feel how seriously they take design.

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How to Lead Even When You Don't Know Where You Are Going

By far the most difficult skill I learned as CEO was the ability to manage my own psychology. This is the most personal and important battle that any CEO will face.

The first problem is that everybody learns to be a CEO by being a CEO. No training as a manager, general manager or in any other job actually prepares you to run a company.

Even if you know what you are doing, things go wrong. Things go wrong because building a multifaceted human organization to compete and win in a dynamic, highly competitive market turns out to be really hard.

If you manage a team of 10 people, it's quite possible to do so with very few mistakes or bad behaviors. If you manage an organization of 1,000 people, it is quite impossible. At a certain size, your company will do things that are so bad that you never imagined that you'd be associated with that kind of incompetence. Seeing people fritter away money, waste each other's time and do sloppy work can make you feel bad. If you are the CEO, it may well make you sick.

And to rub salt into the wound and make matters worse, it's your fault.

Given this stress, CEOs often make one of the following two mistakes: They take every issue incredibly seriously and personally and urgently move to fix it. Or, they do not take things personally enough and take the attitude of "It's not so bad."

Ideally, the CEO will be urgent yet not insane. She will move aggressively and decisively without feeling emotionally culpable. If she can separate the importance of the issues from how she feels about them, she will avoid demonizing her employees or herself.

Techniques to Calm Your Nerves

The problem with psychology is that everybody's is different. With that as a caveat, here are a few techniques that may be useful:

Make some friends. Although it's nearly impossible to get high-quality advice on the tough decisions that you make, it is extremely useful from a psychological perspective to talk to people who have been through similarly challenging decisions.

Get it out of your head and onto paper. The process of writing a document can separate you from your own psychology and enable you to make a decision swiftly.

Focus on the road, not the wall. If you focus on the road, you will follow the road. There are always a thousand things that can go wrong and sink the ship. If you focus too much on them, you will drive yourself nuts and likely crash your company. Focus on where you are going rather than on what you hope to avoid.

Don't Punk Out and Don't Quit

As CEO, there will be many times when you feel like quitting. Great CEOs face the pain. They deal with the sleepless nights, the cold sweats, and what my friend Alfred Chuang (legendary cofounder and CEO of BEA Systems) calls "the torture."

Whenever I meet a successful CEO, I ask them how they did it. Mediocre CEOs point to their brilliant strategic moves or their initiative, business sense or a variety of other self-congratulatory explanations. The great CEOs tend to be remarkably consistent in their answers. They all say, "I didn't quit."

In life, everybody faces choices between doing what's popular, easy and wrong versus doing what's lonely, difficult and right. These decisions intensify when you run a company, because the consequences get magnified a thousand-fold.

Every time you make the hard, correct decision you become a bit more courageous, and every time you make the easy, wrong decision you become a bit more cowardly. If you are CEO, these choices will lead to a courageous or cowardly company.

Over the past 10 years, technological advances have dramatically lowered the financial bar for starting a new company, but the courage bar for building a great company remains as high as it has ever been.

RECOMMENDED READING LIST

If you liked *The Hard Thing About Hard Things*, you'll also like:

1. ***Disciplined Entrepreneurship* by Bill Aulet.** Whether you are a first-time or repeat entrepreneur, Bill Aulet offers the tools you need to improve your odds of making a product people want – and need – to buy.

2. ***The Pumpkin Plan* by Mike Michalowicz.** Inspired by an article about how to grow a giant pumpkin, Mike Michalowicz modified the step-by-step approach to grow his business into a multimillion-dollar industry leader.

3. ***Eat People* by Andy Kessler.** Andy Kessler explains how the greatest entrepreneurs overturn entire industries. He offers 12 surprising rules for these radical entrepreneurs.

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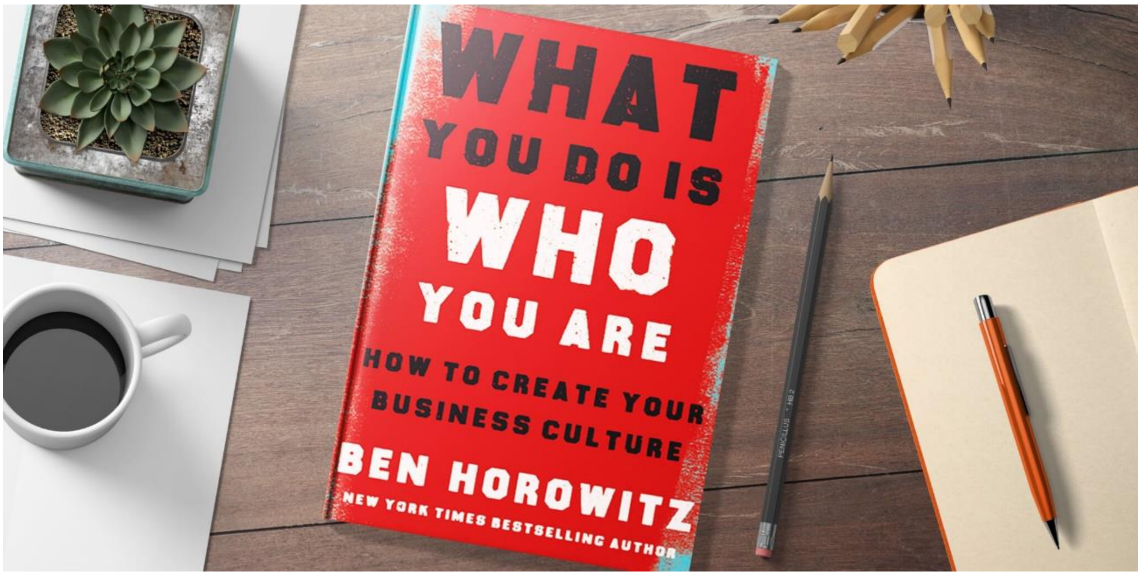
WHAT YOU DO IS WHO YOU ARE

HOW TO CREATE YOUR BUSINESS CULTURE

FULL SUMMARY BY MICHAEL BATKO



Curated by Guillermo Flor, read more about startups and venture capital at www.productmarketfit.tech

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1 paragraph summary:

Excellent book on all things Culture and how culture is not what you write on a wall or tell people, but about what you do on a day to day basis.

When I was CEO of LoudCloud, I figured that our company culture would be just a reflection of my values, behaviours, and personality. So I focused all my energy on “leading by example”. To my bewilderment and horror, that method did not scale as the company grew and diversified. Our culture became a hodgepodge of different cultures fostered under different managers, and most of these cultures were unintentional.

Because your culture is how your company makes decisions when you’re not there.

It’s the set of assumptions your employees use to resolve the problems they face every day. It’s how they behave when no one is looking. If you don’t methodically set your culture, then two-thirds of it will end up being accidental, and the rest will be a mistake.

Culture is not like a mission statement, you can’t just set it up and have it last forever.

There’s a saying in the military that if you see something below standard and do nothing, then you’ve set a new standard. This is

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true of culture — if you see something off-culture and ignore it, you've created a new culture.

Innovative Ideas

Hierarchies are good at weeding out obviously bad ideas. By the time an idea makes it all the way up the chain, it will have been compared to all the other ideas in the system, with the obviously good ideas ranked at the top. This seems like common sense. The problem is that obviously good ideas are not truly innovative, and truly innovative ideas often look like very bad ideas when they're introduced.

Outsourcing Tech

But if their startups outsource their engineering, they almost always fail. Why? It turns out that it's easy to build and app or a website that meets the specification of some initial idea, but far more difficult to build something that will scale, evolve, handle edge cases gracefully, etc

> Companies — just like gangs, armies, and nations — are large organisations that rise and fall because of the daily micro-behaviours of the human beings that compose them.

If a great culture won't ensure success, why bother? In the end, the people who work for you won't remember the press release

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or the awards. They'll lose track of the quarterly ups and downs. They may even grow hazy about the products.

But they will never forget how it felt to work there, or the kind of people they became as a result.

The company's character and ethos will be the one thing that carry with them. It will be the glue that holds them together when things go wrong. It will be their guide to the tiny, daily decisions they make that add up to a sense of genuine purpose.

A culture's strengths may also be its weaknesses. And sometimes you have to break a core principle of your culture to survive. Culture is crucial, but if a company fails because you insist on cultural purity, you're doing it wrong.

Who you are is not the values you list on the wall. It's not what you say at an all-hands. It's not your marketing campaign. It's not even what you believe. It's what you do. What you do is who you are.

1. Culture and Revolution — Toussaint Louverture

In our long history, there has been only one successful slave revolution that led to an independent state.

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Slavery chokes the development of culture by dehumanising its subjects, and broken cultures don't win wars.

Louverture used seven key tactics, which I examine below, to transform slave culture into one respected around the world. You can use them to change any organisation's culture.

1. **Keep What Works**

He used preexisting strengths to great effect — ie songs the slaves sang at their celebrations

2. Create Shocking Rules

As a slave, you own nothing, have no way to accumulate wealth. You can have everything taken away without warning.

If I believe there is no tomorrow, then there can be no trust.

This dynamic becomes problematic in an army, because trust is fundamental to running any large organisation. Without trust, communication breaks. Here's why:

In any human interaction, the required amount of communication is inversely proportional to the level of trust.

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As an org grows, communications becomes its biggest challenge. If soldiers fundamentally trust the general, then communication will be vastly more efficient than if they don't.

To instill trust throughout the army, Louverture established a rule so shocking it begged the question "Why do we have that rule?" The rule forbade married officers from having concubines.

Raping and pillaging was the norm back then, so the rule seemed absurd.

When everyone wants to know "Why?" in an organisation, the answer programs the culture, because an answer everyone will remember. The explanation will be repeated to every new recruit and will embed itself into the cultural fabric.

"Because in this army, nothing is more important than your word. If we can't trust you to keep your word to your wife, we definitely can't trust you to keep your word to us."

a. It must be memorable
b. It must raise the question "Why?"
c. Its cultural impact must be straightforward
d. People must encounter the rule almost daily.

Example:

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- VMware — “Partnerships should be 49/51, with VMware getting the 49.” — be a good partner
- Amazong — Frugality — desks made from doors
- Facebook — “Move fast and break things”
- Yahoo — “Nobody is allowed to work from home.”

> That’s the nature of culture — it helps you do what you are doing better, but it can’t fix your strategy or thwart a dominant competitor.

3. Dress for Success

4. Incorporate Outside Leadership

Bring leaders in from a culture you want to adapt.

I often see companies that plan to go into new areas, but don’t want to shift their culture accordingly. Many consumer companies want to penetrate the enterprise market — that is, selling to big companies — but resist having employees who walk around in fancy suits.

Building a great culture means adapting it to circumstances. And that often means bringing in outside leadership from the culture you need to penetrate or master.

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If you bring in outside leadership, it will make everyone highly uncomfortable. that's what cultural change feels like.

5. Make Decisions that Demonstrate Cultural Priorities

The more counterintuitive the leader's decision, the stronger the impact on the culture.

6. Walk the Talk

No culture can flourish without the enthusiastic participation of its leader. No matter how well designed, carefully programmed, and insistently enforced your cultural elements are, inconsistent or hypocritical behaviour by the person in charge will blow the whole thing up.

For a culture to stick, it must reflect the leader's actual values, not just those he thinks sound inspiring. Because a leader creates culture chiefly by his actions — by example.

Example:

- Hilary Clinton having confidential emails on her personal email — her team did the same.

7. Make Ethics Explicit

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Every company likes to believe it has integrity, but if you asked its employees you'd hear a different story.

One difficulty in implementing integrity is that it's a concept without boundaries. You can't pat yourself on the back for treating your employees ethically if you're simultaneously lying to your customers, because your employees will pick up on the discrepancy and start lying to each other. The behaviours must be universal, you have to live up to them in every context.

What you measure is what you value.

> If you remember one thing, remember that this care about hard choices.

2. The Way of the Warrior — Samurai / Bushido

The samurai, the warrior class of ancient Japan, had a powerful code we call "bushido" or "the way of the warrior."

Bushido looks like a set of principles, but it's a set of practices. The samurai defined culture as a code of action, a system not of values but virtues. A value is merely a belief, but a virtue is a belief that you actively pursue or embody.

> Culturally, what you believe means nearly nothing. What you do is who you are.

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The biggest threat to your company's culture is a time of crisis. Meditating on your company's downfall will enable you to build your culture the right way.

The samurai endured because of two techniques:

1. Detailed every permutation of potential cultural or ethical dilemmas to prevent the code form being misinterpreted or deliberately misunderstood.
2. Stamped their code deep with vivid stories.

Why you do right is not important. Doing right is all that counts. But the people who created the code understood that doing right is harder in some circumstances than others, so they provided case studies.

Story Example — Netscape

- We have three rules at Netscape.

1. The first rule is if you see a snake, don't call committees, don't call your buddies, don't form a team, don't get a meeting together, just kill the snake.
2. The second rule is don't go back and play with dead snakes. Too many people waste too much time on decisions that have already been made.

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3. And the third rule of snakes is: all opportunities start out looking like snakes.

3. The Warrior of a Different Way — Prison — Shaka Senghor

1. **Your Own Perspective on the Culture is not that Relevant**

Your view of culture is rarely what your employees experience. What you experience on your first day is. What must employees do to survive and succeed in your org? What behaviours get them included in, or excluded from, the power base? What gets them ahead?

2. You must start from First Principles

Don't just blindly adopt culture.

The best way to understand your culture is not through what managers tell you, but through how new employees behave. What behaviours do they perceive will help them fit in, survive and succeed? That's your company culture.

Ask them about the bad stuff, the practices or assumptions that made them wary and uncomfortable. Ask them what's different than other place's they've worked — not just what's better, but what's worse. And ask them for advice: "If you were me, how

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would you improve the culture based on your first week here? What would you try to enhance?”

A leader must believe in his own code. Embedding cultural elements you don’t subscribe to will eventually cause a cultural collapse.

4. Ghenghis Khan — Master of Inclusion

Ghenghis created a remarkably stable culture by founding it on three principles: meritocracy, loyalty and inclusion.

Meritocracy

In later life, he would judge others primarily by their actions toward him and not according to their kinship bonds, a revolutionary concept in steppe society.

Ghenghis Khan’s sweeping meritocracy made his army fundamentally different from — and more powerful than — any that came before it.

Mongo women were already treated unusually well for that time, but Ghenghis went on to abolish inherited aristocratic titles, and eliminate the case hierarchy, all men were equal.

Loyalty

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Ghenghis demanded that his army's ethics apply to outsiders as well. When he declared that you must never betray your khan, he intended it as a global rule.

After he defeated Jamuka some of the men turned their leader over to him, hoping to gain favours. Rather than rewarding these turncoats, he executed them.

By elevating loyalty to a higher principle. Ghenghis created a massive military advantage. Precisely because he wasn't asking his troops to die for him, they eagerly would.

Inclusion

Anyone could have added enemy soldiers into his army — but Ghenghis stroke of brilliance was treating those soldiers so well they became more loyal to him than to their original leaders.

Be Yourself, Design Your Culture

The first step is getting the culture you want is knowing what you want. It sounds obvious and it is, it sounds easy, but it's not. Create an environment you're proud of.

Step 1 — in designing a culture is to be yourself.

Other people will always have ideas of what you should be, but if you try to integrate all those ideas in a way that's inconsistent with your own beliefs and personality, you will lose your mojo.

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If you follow the first rule of leadership, not everybody will like you. But trying to get everybody to like you makes things even worse.

I don't want to be cool, I just want to be me.

But know your flaws, because you don't want to program them in the culture.

Culture and Strategy

Culture eats Strategy for breakfast.

I love it because it's anti-elitist but I disagree with it.

The truth is that culture and strategy do not compete. Neither eats the other. indeed, for either to be effective, they must be coherent.

Examples:

- Ghenghis — for his military strategy Meritocracy made sense to have self-sufficient cavalary
- Amazon — frugality makes sense as want to be the cheapest

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- Apple — beautiful design makes sense

Mix culture and strategy and it won't work.

For example, Facebook's "move fast and break things" culture would be catastrophic at an Airbus.

Effective Culture

1. Is your virtue actionable?
2. Does the virtue distinguish your culture?
3. If you are tested in a virtue, will you pass the test?

Culture of Decisions

The decisions you make influence your culture as much as anything. But the process you use to make those decisions also becomes a core part of your culture.

Final Thoughts

Your company culture should be an idiosyncratic expression of your personality, beliefs, and strategy — and it should keep evolving as your company grows and conditions change.

Trust

Telling the truth requires courage, but also judgement and skill.

You can't always disclose everything.

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Should you just give up and lie? No.

Trust derives from candor, and your company will fall apart if your employees don't trust you. The trick — and it's tricky — is to tell the truth without thereby destroying the company.

To do this you must accept that you can't change reality, but you can assign it a new meaning.

If you assign meaning to the ie layoff before anyone else, and you do so candidly and convincingly, your interpretation has a decent chance of being the one that everyone remembers.

1. State the facts clearly.
2. If your leadership caused it, cop to that.
3. Explain why taking the action, you're taking is essential to the larger mission and how important the mission is.

Openness to Bad News

You can be absolutely sure of one thing: at any given moment, something somewhere is going horribly wrong.

Encourage Bad News

1. Be happy about hearing bad news

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Good CEOs run toward the pain and the darkness, eventually they even learn to enjoy it.

2. Focus on Issues, not people >> get to the root cause

3. Look for Bad News in Regular Business >> what's preventing you from doing business? What would you change?

Loyalty

Loyalty is about the quality of your relationships. People don't leave companies, they leave managers. If there is no relationship between a manager and an employee, or, worse, a bad relationship, you won't bet loyalty regardless of your cultural policy.

Culture Checklist

1. Cultural design — make sure you culture aligns with both your personality and your strategy.
2. Cultural orientation — people learn more about what it takes to succeed on Day 1 than any other day.
3. Shocking rules
4. Incorporate outside leadership
5. Object lessons —if you want to cement a lesson, use an object lesson, be dramatic.
6. Make ethics explicit

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7. Give cultural tenets deep meaning — make them stand out from the norm
8. Walk the talk
9. Make decisions that demonstrate priorities

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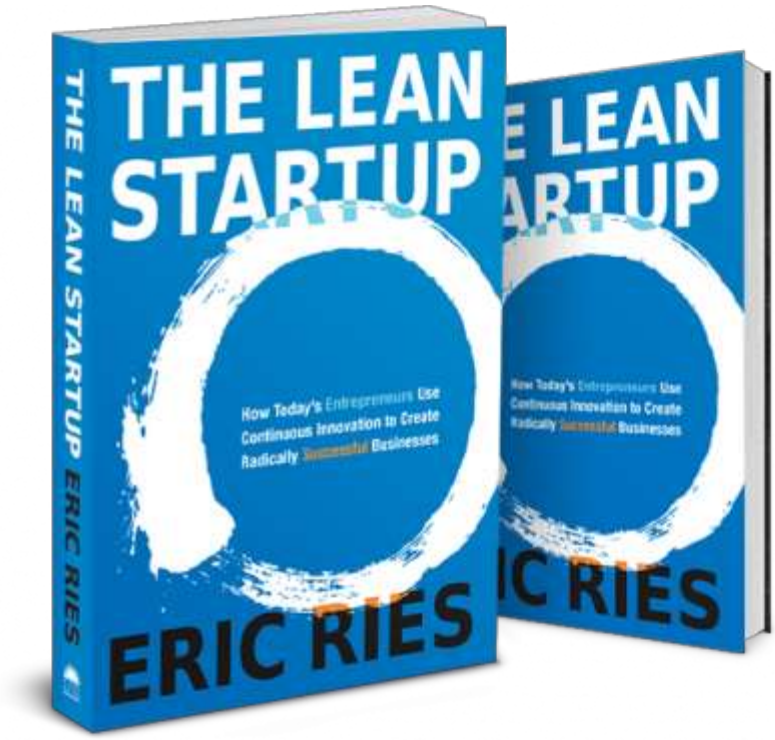
A summary of the book

The Lean Startup

How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses

By Eric Ries

Summary by Kim Hartman



This is a summary of what I think is the most important and insightful parts of the book. I can't speak for anyone else and I strongly recommend you to read the book in order to fully grasp the concepts written here. My notes should only be seen as an addition that can be used to refresh your memory after you´ve read the book. Use the words in this summary as anchors to remember the vitals parts of the book.

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Contents

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Description from amazon

Eric Ries defines a startup as an organization dedicated to creating something new under conditions of extreme uncertainty. This is just as true for one person in a garage or a group of seasoned professionals in a Fortune 500 boardroom. What they have in common is a mission to penetrate that fog of uncertainty to discover a successful path to a sustainable business.

The Lean Startup approach fosters companies that are both more capital efficient and that leverage human creativity more effectively. Inspired by lessons from lean manufacturing, it relies on "validated learning," rapid scientific experimentation, as well as a number of counter-intuitive practices that shorten product development cycles, measure actual progress without resorting to vanity metrics, and learn what customers really want. It enables a company to shift directions with agility, altering plans inch by inch, minute by minute.

Rather than wasting time creating elaborate business plans, The Lean Startup offers entrepreneurs - in companies of all sizes - a way to test their vision continuously, to adapt and adjust before it's too late. Ries provides a scientific approach to creating and managing successful startups in a age when companies need to innovate more than ever.

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Part One - Vision

Chapter 1 – Start

The myth of the loss of manufacturing capabilities: The huge productivity increases made possible by modern mismanagement and technology have created more productivity capacity than firms know what to do with. More output, less jobs.

Lean thinking: drawing on the knowledge and creativity of individual workers, shrinking batch sizes, just-in-time production and inventory control, acceleration of cycle times.

Progress measure: Instead of measuring progress in manufacturing by the production of high-quality physical goods, the lean startup measure progress through validated learning.

Productivity: When people are used to evaluating their productivity locally, they feel that a good day is one in which they did their job well all day. The lean startup asks people to figure out the right thing to build – the thing customers want and will pay for – as quickly as possible.

Build-measure-learn feedback loop: instead of making a lot of assumptions, you can make constant adjustments with a steering wheel called build-measure-learn. Through this process we can learn if and when to make a sharp turn – a pivot.

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Chapter 2: Define

Innovation factory: A company´s only sustainable path to long-term economic growth is to build an "innovation factory" that uses lean startup techniques to create disruptive innovations on a continuous basis.

Culture and systems: It's moving leaders from playing Caesar with their thumbs up and down on every idea to – instead – putting in a culture and the systems so that teams can move and innovate at the speed of the experimentation system.

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Chapter 3: Learn

Validated Learning

Validated learning is not after-the-fact rationalization or a good story designed to hide failure. It is a rigorous method for demonstrating progress when one is embedded in the soil of extreme uncertainty in which startups grow. Validated learning is the process of demonstrating empirically that a team has discovered valuable truths about a startups present and future business prospects. It is more concrete, more accurate, and faster than market forecasting or classical business planning.

Learning is the essential unit of progress for startups. The effort that is not absolutely necessary for learning what customers want can be eliminated. This is validated learning, because it is always demonstrated by positive improvements in the startups core metrics. Validated learning is backed up by empirical data collected from real customers.

The way forward is to learn to see every startup in any industry as a grand experiment. The question is not "can this product be built?" but "can this product be built?" and "can we build a sustainable business around this set of products and services.

Your job is to find a synthesis between your vision and what customers would accept; it wasn't to capitulate to what customers thought they wanted or to tell customers what they ought to want.

True startup productivity: systematically figuring out the right things to build. In the lean startup, every product, every feature, every marketing campaign – everything a startup does – is understood to be an experiment designed to achieve validated learning.

Lean thinking: Lean thinking defines value as providing benefit to the customer, anything else is waste. In a manufacturing business, customers don't care how the product is assembled, only that it works correctly. But in a startup, who the customer is and what the customer might find valuable are unknown, part of the very uncertainty that is an essential part of the definition of a startup.

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Chapter 4: Experiment

One of the most important lessons of the scientific method – if you cannot fail, you cannot learn.

The experiment phase: it begins with a clear hypothesis that makes predictions about what is supposed to happen. Startup experimentation is guided by the startups vision. The goal of every startup experiment is to discover how to build a sustainable business around that vision. Even when experiments produce a negative result, those failures prove instructive and can influence strategy. In the lean startup model, an experiment is more than just a theoretical inquiry; it is also a first product.

The two most important assumptions entrepreneurs make are:

- **The value hypothesis** – test whether a product or service really delivers value to customers once using it.
- **The growth hypothesis** – test how new customers will discover a product or service.

The product manager usually says "I want this", and the engineer answers "I am going to build that".

Instead answer 4 questions:

1. Do consumers recognize that they have the problem you are trying to solve?
2. If there was a solution, would they buy it?
3. Would they buy it from us?
4. Can we build a solution for that problem?

Success is not delivering a feature; success is learning how to solve the customer's problem.

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Part two: Steer

The feedback loop

Ideas > build > product > measure > data > learn > ideas > and so on (circle)

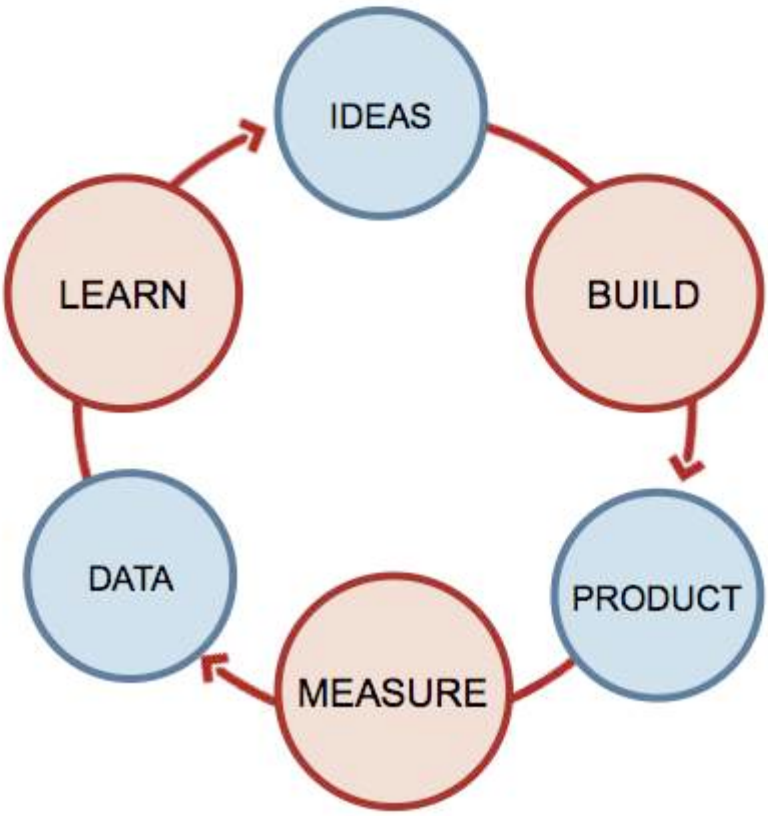

Image source (thanks)

Minimizing the total time: Many people have training that emphasizes one element of the feedback loop. But having the best business idea or the best designed product isn't enough; we need to focus our energies on minimizing the total time through this feedback loop.

Minimum Viable Product: Once clear on the leap-of-faith decisions, the first step is to enter the build phase as quickly as possible with a minimum viable product – MVP. The MVP is that version of the product that enables a full turn of the build-measure-learn loop with a minimum amount of effort and the least amount of development time.

Learning milestones: an alternative to traditional business and product milestones. Learning milestones are useful for entrepreneurs as a way of assessing their progress accurately and objectively.

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Chapter 5: Leap

Startup strategy: For startups, the role of strategy is to help figure out the right questions to ask.

The first challenge for an entrepreneur is to build an organization that can test these assumptions systematically. The second challenge, as in all entrepreneurial situations, is to perform that rigorous testing without losing sight of the company´s overall vision.

Leap-of-faith assumptions: The riskiest elements of a startup plan are the leap-of-faith assumptions. The two most important assumptions are the value hypothesis and the growth hypothesis. These give rise to tuning variables that control a startups engine of growth. Each iteration of a startup is an attempt to rev this engine to see if it will turn. Once it is running, the process repeats, shifting into higher and higher gears.

Example leap of faith: will break or make your business. In the iPod business, one of those leaps of faith was that people would pay for music.

Genchi Gembutsu: "Go and see for yourself". Means that business should be based on deep firsthand knowledge. Until you have seen something for yourself firsthand you cannot be sure you really understand any part of the business problem.

External customer data: The facts that we need to gather about customer exist only outside the building.

Customer archetype: Early contact with the customer clarifies a basic coarse level that we can use to craft a customer archetype – a brief document that seeks to humanize the proposed target customer.

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Chapter 6: Test

MVP definition: A minimum Viable Product helps entrepreneurs start the process of learning as quickly as possible. It is not necessarily the smallest product imaginable, though; it is simply the fastest way to get through the build-measure-learn feedback loop with the minimum amount of effort. MVP is designed not just to answer product design or technical questions. Its goal is to test fundamental business hypotheses. The MVP is only the first step on a journey of learning. Down that road – after many iterations – you may learn that some element of your product or strategy is flawed and decide it is time to make a change (pivot) to a different method for achieving your vision.

The concierge MVP: in a concierge MVP, a personalized service is not the product but a learning activity designed to test the leap of faith assumptions to the company´s growth model. Without a formal growth model, many companies get caught in the trap of being satisfied with a small profitable business when a pivot (change in course or strategy) might lead to a more significant growth.

MVP rule: When building your MVP, remove any feature, process or effort that does not contribute directly to the learning you seek. Even a low quality MVP can act in service of building a great high-quality product.

Constant feedback: Bring continually in people to react to mockups, prototypes and simulations.

Early adopters

Before new products can be sold successfully to the mass market, they have to be sold to early adopters. These people are a special breed of customer. They accept – in fact prefer – an 80 percent solution; you don't need a perfect solution to capture their interest. Early adopters use their imagination to fill in what a product is missing. They prefer that state of affairs, because what they care about above all is being the first to use or adopt a new product or technology. Early adopters are suspicious of something that is too polished; if it's ready for everyone to adopt, how much advantage can one get by being early?

Wizard of Oz testing: in WoOT, customers believe they are interacting with the actual product, but behind the scenes human beings are doing the work. Very inefficient, but easy to build on micro scale.

High-quality experiences: Most business philosophies focus on producing high-quality experiences for customers as a primary principle. This presupposes that the company already knows what attributes of the product the customer will perceive as worthwhile, and this is a risky assumption in a startup. If we don't know who the customer is, we do not know what quality is.

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We must always ask: what if the user doesn't care about the design in the same way we do?

We must be willing to set aside our traditional professional standards to start the process of validated learning as soon as possible.

A head start is rarely large enough to matter, and time spent in stealth mode – away from customers – is unlikely to provide a head start. The only way to win is to learn faster than anyone else.

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Chapter 7: Measure

A startup´s job is to:

1. Rigorously measure where it is right now, confronting the hard truths that assessment reveals and then…
2. Device experiments to learn how to move the real numbers closer to the ideal reflected in the business plan.

Innovation accounting

Innovation accounting: We all need a disciplined, systematic approach to figuring out if we are making progress and discovering if we are actually achieving validated learning. This is called innovation accounting; an alternative to traditional accounting designed specifically for startups, and begins by turning the leap-of-faith assumptions into a quantified financial model. IA works in three steps:

1. Use a MVP to establish real data on where the company is right now
2. Startups must attempt to tune the engine from the baseline toward the ideal.
3. After the startup has made all the micro changes and product optimizations it can move its baseline toward the ideal, the company reaches a decision point: pivot or preserve.

The innovation accounting framework makes it clear when the company is stuck and needs to change direction.

The importance of innovation accounting: Only 5 % of entrepreneurship is the big idea, the business model, the whiteboard strategizing, and the splitting up of the spoils. The other 95 % is the gritty work that is measured by innovation accounting: product prioritizing decisions, deciding which customers to target or listen to, and having the courage to subject a grand vision to constant testing and feedback.

Learning milestone: The MVP provides the first example of a learning milestone. An MVP allows a startup to fill in real baseline data in it growth model – conversion rates. Sign up and trial rates, customer life value etc. – and this is valuable as the foundation for learning about customers and their reactions to product even if that foundation begins with extremely bad news.

Tuning the engine: Once the baseline has been established, the startup can work toward the second learning milestone: tuning the engine. Every product development, marketing other initiative that a startup undertakes should be targeted at improving one of the drivers of it growth models.

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Pivot or preserve: If we are not moving the drivers of our business model, we are not making progress. That becomes a sure sign that it is time to pivot. When a company pivots, it starts the process all over again, reestablishing a new baseline and then tuning the engine from there. The sign of a successful pivot is that these engine-tuning activities are more productive after the pivot than before.

The sign of a successful pivot: the new experiments you run are overall more productive than the experiments you were running before.

Pattern for making a pivot or preserve: poor quantitative results force us to declare failure and create the motivation, context, and space for more qualitative research. These investigations produce new ideas – new hypotheses – to be tested, leading to a possible pivot. Each pivot unlocks new opportunities for further experimentation, and the cycle repeats. Each time we repeat this simple rhythm: establish the baseline, tune the engine, and make a decision to pivot or preserve.

Cohort analysis: this is one of the most important tools of startup analytics. Instead of looking at cumulative totals or gross numbers such as total revenue and total number of customers, one looks at the performance of each group customers that comes into contact with the product independently. Each group is called a cohort.

Metrics
Actionable metrics: the kind of metrics we use to judge our business and our learning milestones.

Farbs user stories: Instead of writing a specification for a new feature that described it in technical terms, Farb would write a story that described the feature from the point of view of the customer.

Split test benefits: split tests almost always save tremendous amount of time in the long run by eliminating work that doesn't matter to customers. It also helps teams refine their understanding of what customers want and don't want.

The 3 mA´s of metrics:

- Actionable
- Accessible
- Auditable

Actionable metrics: For a report to be considered actionable, it must demonstrate clear cause and effect. Otherwise it is a vanity metric. When cause and effect is clearly understood, people are better able to learn from their actions. Human beings are innately talented learners when given a clear and objective assessment.

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Accessible metrics: departments too often spend their energy learning how to use data to get what they want rather than as genuine feedback to guide their future actions. Remember that metrics are people, too. Everyone must understand the reports.

Auditable metrics: We must ensure that the data is credible to employees.

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Chapter 8: Pivot or Preserve

Pivot definition: A structured course correction designed to test a new fundamental hypothesis about the product, strategy and engine of growth. A pivot requires that we keep one foot rooted in what we have learned so far, while making a fundamental change in strategy in order to seek even greater validated learning.

Pivot sooner than later: Ask most entrepreneurs who have decided to pivot and they will tell you that they wish they had made the decision sooner.

The land of the living dead: Happens when a company has achieved a modicum of success – just enough to stay alive – but is not living up to the expectations of its founders and investors. Companies that cannot bring themselves to pivot to a new direction on the basis of feedback from the marketplace can get stuck in the land of the living dead, neither growing enough nor dying, consuming resources and commitment from employees and other stakeholders but not moving ahead.

Learning Milestones goal: The goal of creating learning milestones is not to make the decision easy; it is to make sure that there is relevant data in the room when it comes time to decide.

The Runaway: The true measure of runaway is how many pivots a startup has left: the number of opportunities it has to make a fundamental change to its business strategy.

Vanity metrics prevents pivoting: Vanity metrics can allow entrepreneurs to form false conclusions and live in their own private reality. When an entrepreneur has an unclear hypothesis, it's almost impossible to experience complete failure, and without failure there is usually no impetus to embark on the radical change a pivot requires. You will always succeed - in seeing what happens. You won't know whether to pivot or preserve.

Common with pivots: it is not necessary to throw out everything that came before and start over. Instead, it is about repurposing what has been built and what has been learned to find a more positive direction.

From early adopters to mainstream: The rationale for building low-quality MVPs is that developing any features beyond what early adopters require is a form of waste. Once you have found success with early adopters, you want to sell to mainstream customers. Mainstream customers have different requirements and are much more demanding.

The heart of the lean startup: A pivot is not just an exhortation to change. It is a special kind of structured change designed to test a new fundamental hypothesis about the product, business model and engine of growth. It is the heart of the lean startup method.

Types of pivots:

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- ***Zoom-in pivot:*** What preciously was considered a single feature in a product becomes the whole product.
- ***Zoom-out pivot:*** What was considered as the whole product becomes a single feature of a much larger product.
- ***Customer segment pivot***: The product hypothesis is partially confirmed, solving the right problem, but for a different customer than originally anticipated.
- ***Customer need pivot***: The product hypothesis is partially confirmed: the target customer has a problem worth solving, just not the one that was originally anticipated.
- **Platform pivot:** Refers to a change from an application to a platform or vice versa.
- Business architecture pivot: For example when a startup goes from high margin/low volume to mass market or vice versa.
- **Value capture pivot**: how do companies capture value?
- **Engine of growth pivot**: A company changes its growth strategy to seek faster or more profitable growth.
- **Channel pivot:** Is the recognition that the same basic solution could be delivered through a different channel with greater effectiveness.
- **Technology pivot**: When discovering a technology to achieve the same solution by using a completely different technology.

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Part three – Accelerate

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Structures: Startups need organizational structures that combat the extreme uncertainty that is a startups chief enemy.

Value in a startup: The critical first question for any lean transformation is: which activities create values and which are a form of waste? Once you understand this distinction, you can begin using lean techniques to drive out waste and increase the efficiency of the value-creating activities. Value in a startup is not the creation of stuff, but rather validated learning about how to build a sustainable business. What products do customers really want? How will our business grow? Who is our customer? Which customer should we listen to and which should we ignore.

Just-in-time: Just as lean manufacturing has purchased a just-in-time approach to building products, reducing the need for in-process inventory; Lean startups practice just-in-time scalability.

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Sustainable growth follows one of **three engines of growth**:

- Paid
- Viral
- Sticky

Choosing engine of growth: By identifying which engine of growth a startup is using, it can then direct energy where it will be most effective in growing the business. Each engine requires a focus on unique metrics to evaluate the success of new products and prioritize new experiments.

Sustainable AND disruptive: Today companies must learn to master a management portfolio of sustainable AND disruptive innovation.

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Chapter 9: Batch

Small batches: Every Lean startup technique we have discussed so far works its magic in two ways: by converting push methods to pull and reducing batch sizes. The biggest advantage of working in small batches is that quality problems can be identified much sooner. Working in small batches ensures that a startup can minimize the expenditure of time, money, and effort that ultimately turns out to have been wasted. Small batches let people discover the truth faster.

Example small batches vs. large batches - letter folding:

Fold all of the letters, attach the seal and put on the stamps. This approach is called single-piece flow in lean manufacturing. It works because of the surprising power of small batches. Single-piece flow is so named because it has a batch size of one. The extra time required to sort, stack, and move around the large piles of half-complete envelopes when it's done the other way. The small-batch approach produces a finished product every few seconds, whereas the large-batch approach must deliver all the products at once, at the end.

Even if the amount of time that each process took was exactly the same, the small batch production approach still would be superior. Imagine that the letter´s didn't fit in the envelopes. With the large-batch approach, we wouldn't find that out until nearly the end.

Toyota´s small batches: Instead of buying large specialized machines that could produce thousands of parts at a time, Toyota used smaller general-purpose machines that could produce a wide variety of parts in small batches. This required figuring out ways to reconfigure each machine rapidly to make the right part at the right time. By focusing on this "changeover time", Toyota was able to produce entire automobiles by using small batches throughout the process.

Toyota did not ask workers to work faster but reimagined and restructured the work that needed to be done. Every investment in better tools and process had a corresponding benefit in terms of shrinking the batch size of work. The smaller batch sizes created a greater diversity of products and Toyota could therefore serve its smaller, more fragmented markets and still compete with the mass producers.

Toyotas andon chord: an assembly line works best when it is functioning smoothly, rolling car off the end of the line. The andon chord can interrupt this careful flow as the line is halted repeatedly. However, the benefits of finding and fixing problems faster outweigh this cost.

Large batches: Behind the scenes, in the development and design of the product itself, large batches are still the rule. The work that goes into the development of a new product proceeds on a virtual assembly line.

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Example of Continuous deployment in the software industry:

1. ***Hardware becoming software***
   The latest phones and tablets computers are little more than a screen connected to the internet. Almost all of their value is determined by their software. What can be built out of software can be modified much faster than a physical or mechanical device can.

2. ***Fast production changes***
   Many assembly lines are set up to allow each new product that comes off the line to be customized completely without sacrificing quality or cost-effectiveness. Historically, this has been used to offer the customer many choices of product, but in the future, this capability will allow the designers of products to get much faster feedback about new versions.

3. ***3D printing and rapid prototyping tools***
   New technologies are allowing entrepreneurs to build small batches of products that are of the same quality but at much lower cost and much faster.

   The lesson: by reducing batch size, we can get through the build-measure-learn feedback loop more quickly than our competitors can. The ability to learn faster from customers is the essential advantage that startups must possess.

School of One: In school of One, students have daily playlists of their learning tasks that attuned to each student´s earning needs, based on that students readiness and learning style. There are assessments built into each activity so that data can be fed back to the teacher to choose appropriate tasks for the next playlist. This data can be aggregated across classes, schools or even whole districts. You can see immediately the change on those of your students who are at that point in the curriculum. If you judge it to be a good change, you could roll it out immediately for every single student.

Large-batch death spiral: Large batches tend to grow over time. Because moving the batch forward often results in additional work, rework, delays, and interruptions, everyone has an incentive to do work in ever-larger batches, trying to minimize this overhead. This is called large-batch death spiral.

Experiment early: As soon as we can formulate a hypothesis we want to test, the product development team should be engineered to design and run this experiment as quickly as possible, using the smallest batch size that will get the job done.

Build-measure-learn really works in the reverse order: we figure out what we need to learn and then work backwards to see what product will work as an experiment to get that

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learning. Thus, it's not the customer, but rather our hypothesis about the customer, that pulls work from product development and other functions. Any other work is waste.

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Chapter 10: Grow

The engine of growth is the mechanism that startups use to achieve sustainable growth. Sustainable growth is characterized by one simple rule: *New customers come from the actions of past customers.*

There are four primary ways past customers drive sustainable growth:

1. **Word of mouth.** Embedded in most products is a natural level of growth that is caused by satisfied customer's enthusiasm for the products.
2. **As a side effect of products usage**. Fashion or status, such as luxury goods products, drive awareness of themselves whenever they are used.
3. **Through funded advertising**. As long as the cost of acquiring a new customer (marginal cost) is less than he revenue that customers generates (marginal revenue), the excess (marginal profit) can be used to acquire more customers. The more marginal profit, the faster the growth.
4. **Through repeat purchase or use.** Like subscriptions or voluntary repurchases.

Engines of growth: The sources of sustainable growth power feedback loops that are called engines of growth. Each is like a combustion engine, turning over and over. The faster the loop turns, the faster the company will grow. Technically, more than one engine of growth can operate in a business at a time. Successful startups usually focus on just one engine of growth, specializing in everything that is required to make it work. Engines of growth are designed to give startups a relatively small set of metrics on which to focus their energies. Startups have to focus on big experiments that lead to validated learning. The engines of growth framework help them stay focused on the metrics that matter.

The sticky engine of growth: Companies using the sticky engine of growth track their attrition rate or churn rate very carefully. The churn rate is defined as the fraction of customers in any period who fail to remain engaged with the company´s product. The rules that govern the sticky engine of growth are pretty simple: if the rate of new cuter acquisition exceeds the churn rate, the product will grow. The speed of growth is determined by what the churn rate compounding, which is simply the natural growth rate minus the churn rate.

The viral engine of growth: products that exhibit viral growth depends on person-to-person transmission as a necessary consequence of normal product use. Customers are not intentionally acting as evangelists; they are not necessarily trying to spread the words about the product. Growth happens automatically as a side effect of customers using the product.

The viral loop: its speed is determined by a single mathematical term called the viral coefficient. The higher this coefficient is, the faster the product will spread. The viral coefficient measure how many new customers will use a product as a consequence of each new customer who signs up. Example: For a product with a viral coefficient of 0, 1, one in

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every ten customers will recruit one of his or her friends. A viral loop with a coefficient that is greater than 1, 0 will grow exponentially, because each person who signs up will ring, on average, more than one person with him or her.

The paid engine of growth: each customer pays a certain amount of money for the product over his or her lifetime as a customer. Once variable costs are deducted, this usually is called the customer lifetime value (LTV). Suppose an ad costs 100 bucks and causes 50 new customers to sign up for the service. This ad has a cost per acquisition (CPA) of 2 bucks. If the product has an LTV that is greater than 2 buck, the product will grow. The margin between the LTV and the CPA determines how fast the paid engine of growth will turn.

Product/market fit: Describes the moment when a startup finally finds a widespread set of customers that resonate with its product.

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Chapter 11: Adapt

Adaptive organization: We never stopped and decided that we needed to build a great training program. Instead, the training program evolved organically out of a methodical approach to evolving our own process. This process of orientation was subject to constant experimentation and revision so that it grew more effective – and less burdensome – over time. This building is called an adaptive organization, one that automatically adjusts its process and performance to current conditions. Although the primary changes that are required in an adaptive organization are in the mindset of its employees, changing the culture is not sufficient.

One of the most important discoveries of the lean manufacturing movement: you cannot trade quality for time. If you are causing or missing quality problems now, the resulting defects will slow you down later. Service businesses have the same challenges.

Adaptive processes: To accelerate, Lean startups need a process that provides a natural feedback loop. Adaptive processes force you to slow down and invest in preventing the kinds of problems that are currently wasting time. As those preventive efforts pay off, you naturally speed up again.

The five why´s
At the root of every seemingly technical problem is a human problem. Five Why´s provides an opportunity to discover what that human problem might be.

Example of five why´s:

1. Why did the machine stop? (There was an overload and the fuse blew)
2. Why was there an overload? (the bearing was not sufficiently lubricated)
3. Why was it not lubricated sufficiently? (the lubrication pump was not pumping sufficiently)
4. Why was it not pumping sufficiently? (the shaft of the pump was worn and rattling)
5. Why was the shaft worn out? (there was no strainer attached and metal scrap got in)

If this procedure were not carried through, one might simply replace the fuse or the pump shaft. In that case, the problem would recur within a few months.

The five why`s approach acts as a natural speed regulator. The more problems you have, the more you invest in solutions to those problems. As the investments in infrastructure or process pay off, the severity and number of crises are reduced and the team speeds up again.

Blame: When blame inevitably arises, the most senior people in the room should repeat this mantra: if a mistake happens, shame on us for making it so easy to make that mistake.

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Waterfall product methodology: Waterfall product methodology product development teams have used it for years. It is a linear, large batch system that relies for success on proper forecasting and planning. In other words, it is completely maladapted for today's rapidly changing business environment.

A startups work is never done: even established companies alike must learn to juggle multiple kinds of work at the same time, pursuing operational excellence and disruptive innovation. This requires a new kind of portfolio thinking.

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Chapter 12: Innovate

Three structural attributes: Startup requires three structural attributes: scarce but secure resources, independent authority to develop their business, and a personal stake in the outcome. And it doesn't have to be financial. The parent organization have to make it clear who the innovator is and make sure the innovator receives the credit for having brought the new product to life – if it is successful.

Startup budgets: Too much budget is as harmful as too little – startups are extremely sensitive to midcourse budgetary changes. Startups are both easier and more demanding to run than traditional divisions; they require much less capital overall, but that capital must be absolutely secure from tampering.

Experimenting with autonomy: startup teams need complete autonomy to develop and market new products within their limited mandate. They have to be able to conceive and execute experiments without having to gain an excessive number of approvals. They have to be able to build and ship actual functioning products and services, not just prototypes. Handoffs and approvals slow down the build-measure-learn feedback loop and inhibit both learning and accountability. Without the ability to experiment in a more agile manner, a company will suffer the innovators dilemma; ever-higher profits and margins year after year until the business suddenly collapse.

Rapid iteration: The sandbox also promoted rapid iteration. When people have a chance to see a project through from end to end and the work is done in small batches and delivers a clear verdict quickly, they benefit from the power of feedback. By making the sandbox small, the sandbox method allows teams to make cheap mistakes quickly and start learning.

Operational excellence: In most cases, the product will attract copycats and imitators. Once the market for the new product is well established, procedures become more routine. To combat inevitable commoditization of the product in its market, line extensions, incremental upgrades, and new forms of marketing are essential. In this phase, operational excellence takes on a greater role, as an important way to increase margins is o lower costs.

The innovation sandbox

The challenge here is to create a mechanism for empowering innovation teams out in the open. One way is to create a sandbox for innovation that will contain the impact of the new innovation but not constrain the methods of the startup team. Customers in the sandbox are considered real and the innovation team is allowed to attempt to establish a long term relationship with them. The innovation team should try to be cross functional and have a clear tem leader. It should be empowered to build market and deploy products or features in the sandbox without prior approval. It should be required to report on the success or failure of those efforts by using standard actionable metrics and innovation accounting.

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Ideally, the sandbox will grow over time; that is, rather than move the team out of the sandbox and into the company´s standard routines, there may be opportunities to enlarge the scope of the sandbox.

Working in the innovation sandbox is like developing startup muscles. At first, the team will be able to take on only modest experiments. The earliest experiments may fail to produce much learning and may lead to a scalable success. Over time, those teams are almost guaranteed to improve as long as they get the constant feedback of small batch development and actionable metrics and are held accountable to learning milestones.

Speed: It does not matter how fast we can build. It does not matter how fast we can measure. What matters is how fast we can get through the entire loop.

The lean startup as framework: Those who look to adopt lean startup as a defined set of steps or tactics will not succeed. In a startup situation, things constantly go wrong. Ultimately, the lean startups are a framework, not a blueprint of steps to follow. It is designed to be adapted to the conditions of each specific company. Rather than copy what others have done, techniques such as the five why´s allow you to build something that is perfectly suited to your company.

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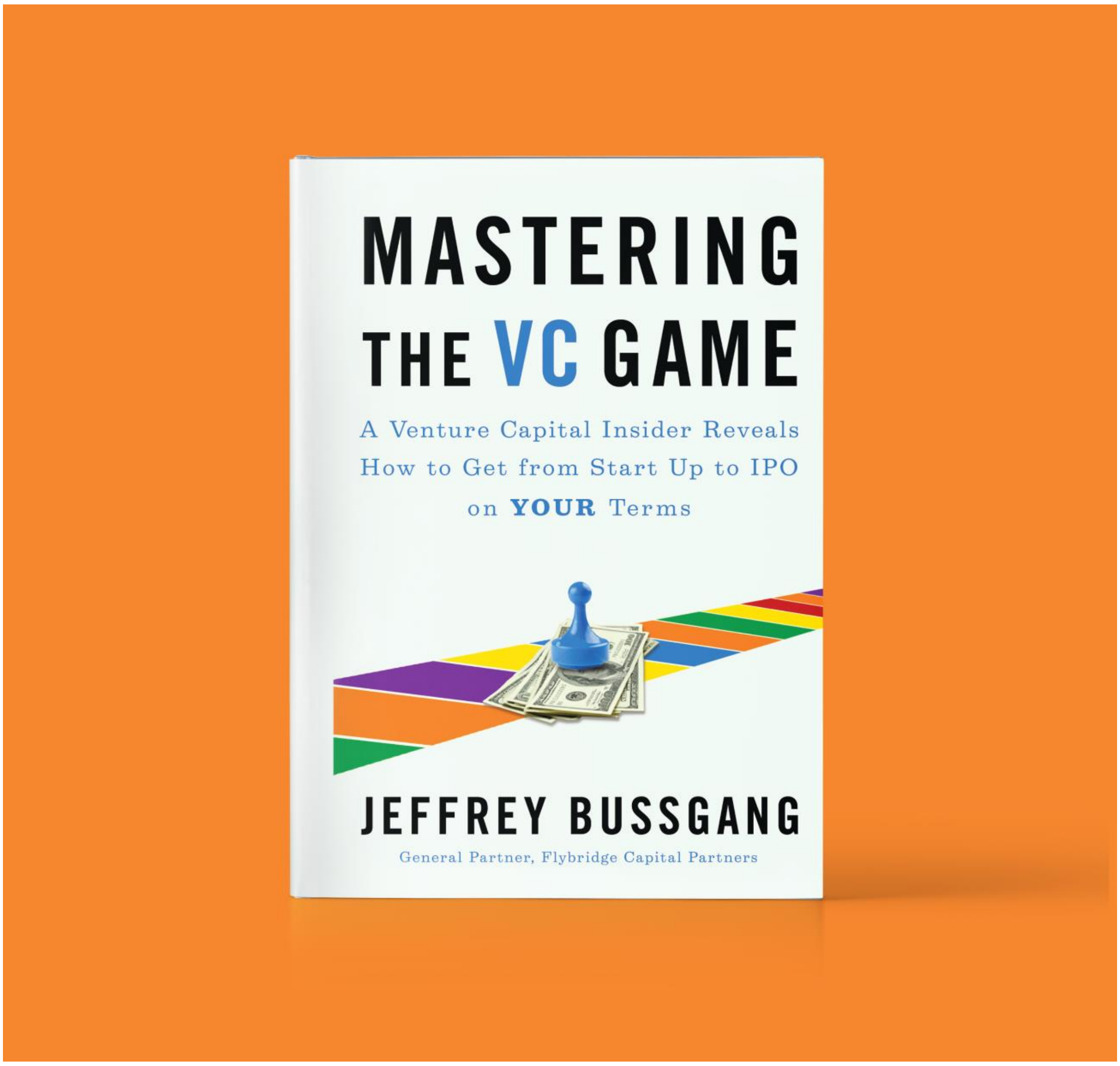
MASTERING THE VC GAME

A Venture Capital Insider Reveals How to Get from Start-ip to IPO on YOUR Terms – Book Summary by Tikue Anazodo



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Finding The Right VC Firms

- Venture capital is not a right fit for most new ventures. Of the 600,000 ventures started annually in the US, only about 0.5% actually received any VC funding. VCs specifically look to invest in companies that they think have potential for huge innovation and growth and that ultimately have the potential to grow to multi-billion dollar companies.

- Venture Capitalist need to hustle to get into the best deals. For founders, there might be value in waiting till your startup has significant leverage before trying to raise venture capital. It's pure demand and supply at work. If you have no leverage, you would be effectively begging for money and might end up with the worst terms from the worst VCs, but with significant leverage, the best VCs will be fighting each other to get into your round and the ball would essentially be in your court.

- Get a good startup lawyer before getting involved with any complex legal documents. If money is a problem for you, some startup lawyers are willing to defer cost till after your startup has raised a venture round. Legal speak is generally different from regular speak, so trusting one's independent interpretation of legal documents could lead to disasters in the long run.

- Avoid cold contacting VC firms. Getting a warm introduction shows that you can work your personal

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network to your advantage, a valuable trait to have when doing business development for your startup and closing early customers and strategic partners. Odds of receiving funding from a cold email are 50,000 to 1.

- A VC's location should also be factored into the search process. The farther a VC is located from you, the less likely they are to be very useful for assistance with strategy, business development, recruiting and everything else VCs are meant to help their portfolio companies with. While location is not a show stopper, it should definitely be factored into decisions.

- Size matters. Bigger VC funds might not be interested in making small investments. Look for VC firms that invest in companies at your stage, it's a waste of precious time trying to raise 500k from a firm that only invests in $10 million+ rounds.

- The sweet investment spot for VC firms at any point in time comes down to the size of a firm's current investment fund and not the total assets under management listed on crunchbase. For instance, a firm's current fund might be running out and they might be in the middle of raising a new round, in which case the partners might be too busy pitching LPs and might not be able to consider new investments even if you might otherwise be a right fit.

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- Before pitching to a VC firm, make sure they invest in companies like yours. Some VC firms explicitly state opportunities they are not interested in, don't be that startup that pitches a bitcoin startup to a VC firm that explicitly states on their homepage that they don't invest in bitcoin startups.

The Pitch

- Pitch meetings can be intense, know all the details of your company and its competitors inside out before walking into the lion's den.

- You typically don't get very much time to state your case, be brief and try to get the most important messages across within the first 15 minutes of your pitch.

- Don't try to hide the risks associated with your venture. Make it clear during your pitch that you have thought through all the risk and have strategies to reduce the chances of their occurrence. Hiding the risks comes could rub off as being unaware of all the variables in your startup's arena.

- Successful entrepreneurs are passionate about their ideas, and VCs look for evidence of that passion during pitch meetings. Channel your passion in the way that feels most natural to you.

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- Ideas are cool, but the people behind the idea are the most important element that most VCs look at. Make sure you clearly outline why the team you are working with is the best team to execute on the idea you are pitching. Ideas are cheap, execution is key.

- An advisory board is a very useful mechanism that entrepreneurs can use to build VC confidence around their startup idea even before a real product exists. The advisory board typically consists of acclaimed domain experts in the field that the startup is going after. If you have a good advisory board, point that out.

- VCs like to invest in ideas whose success or failure can be easily measured in the short term using clearly defined metrics. Make sure you clearly communicate the metrics you are interested in monitoring in the short and long term and why you think the metrics you choose are relevant to measuring the progress of your startup. Define clear milestones with regards to the metrics you choose.

After the Pitch + Choosing the Right VC to Partner With

- VC firms rarely ever explicitly say 'no' to founders. Some might tell you that they need more time to think over it, and might subsequently proceed to ignore any future correspondence from you when said you try to

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get a status update from them. Others might be somewhat interested but might not want to independently make a decision and might only decide to invest if you can get other VCs interested in your startup so they might hang around in the shadows until you can get a couple of other big name investors interested.

- VC firm need to do due diligence on deals and this can be anything from discussing the feasibility of your product behind closed doors with experts in your field to calling up your references — both the references you personally supply and additional references that they source for themselves. This process takes time.

- It is not unusual to go through dozens of rejections before you get a positive financial commitment from one firm.

- No matter how desperate your startup might be for cash, it is important never to rush into accepting an investment from any VC firm unless you are certain that your goals are aligned. Accepting an investor is like getting into a marriage that a founder can’t terminate at will, tread with caution.

- The fact that a specific venture capital firm might be the right fit for your startup doesn't necessarily mean that the partner who wants to lead the investment in your startup is the right fit. In addition to doing due

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diligence on the VC firms interested in investing in your company, you also need to do your research on the individual partner who plans to lead your round.

- A good place to start could be by getting feedback from other founders like you who that partner has worked with as an investor in the past. This person might end up taking a board seat in your company and might be very influential in key decisions such as deciding the right time for your company to exit, so you want to make sure that your goals are aligned.

- The more experience and connections the partner you are letting into your board has in your space, the more value they could bring to the table in both the short term and long term.

- Beyond the more generic due diligence, you also want to be sure that you and the investing partner have a shared chemistry. There is no hard and fast rule for evaluating chemistry, but on a high level you should ideally have aligned visions for your startups and your investor should be someone you feel that you can trust. When things hit the fan, you want to know that your VC partner would not immediately throw you under the bus.

- The more active VCs who come invest early and join the board only have bandwidth for 1–2 deals a year per partner, while the more passive later stage VCs can do

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3–4 deals a year per partner. Make sure the VC partner leading your investment round has the bandwidth to be useful to your startup from an operational standpoint.

- Entrepreneurs should ask VC firms about how carry is divided among the firm's investment partners, this might be useful in determining what the firm's culture and division of decision making authority among partners. For instance, if the partner leading your round is a junior partner in a remote office, he/she might not necessarily have enough influence to secure funding allocation for future rounds in the unfortunate event that you ever run into problems and need emergency capital infusion.
- VCs could bring very important strategic relationships to the table and could connect portfolio companies to customers, strategic partners and potential acquirers by simply digging into their personal Rolodex for the appropriate connections. The quality of a VCs Rolodex as it relates to your specific startup's needs is of utmost importance.
- Having two co-investors with vastly different fund sizes could yield tension because both firms might have vastly different goals and expectations.
- In some rare scenarios where a founder has an exceptional product/concept but is not a good executor e.g. scientists in academia, VCs might only want to

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make an investments contingent on bringing in strategic executive hires to help figure out how the turn the product into a business.

Closing the Deal

- Most VCs typically only issue a term sheet to an entrepreneur after the entire partnership has agreed that the business related due diligence is complete.
- Avoid jumping into 24 hour exploding term sheets at all costs, if a VC cannot give you enough time to think through a decision of this magnitude, this might be a sign that any marriage with said VC might be very rocky.
- Always get an experienced contract negotiation lawyer to help navigate this process, don’t try to do it on your own.
- Raising funds at really high valuations in early rounds might increase the pressure from VCs in the long run, because early VCs might have unrealistically high exit criteria.
- VCs need to be convinced that they can make 5–10x within five years, and this consideration is factored heavily into the proposed pre-money valuation they give your startup in the term sheet.

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- Post-money valuation = Pre-money valuation + Amount raised.
- Many VCs will require that an option pool for new hires is created from the stock allocation of the management team. The options pool is included in the pre-money valuation.
- Founder's final % ownership = Founder's initial % ownership - % allocation for options pool - % given up to financial investors
- The 'promote' is a very important number for the founders to consider in evaluating term sheets. The 'promote', as it is defined in the book, is the percentage of the founders stake after dilution — by the combination of VCs and the employee option pool — multiplied by the post-money valuation. For example, a founding team with 40% ownership after an investment round and a post-money startup valuation of $10,000,000 has a promote of $4,000,000.
- Liquidation preference is another really important part of a term sheet that an entrepreneur needs to thoroughly understand as it ultimately determines the ordering of payouts in a liquidation event. VCs will typically always want at least 1x liquidation preference, This means that for instance in a $10 million exit event, a founder who owns 80% of a company could still have a $0 payout if the startup received $10 million in

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funding with 1x liquidation preference. In the above scenario, the VCs will need to take 1x of the initial investment i.e. all $10 million off the table after acquisition before any of the proceeds can be partitioned among shareholders.

- Liquidation preferences of more than 1x are rare in regular early stage investments and competitive deal, they are more common in distressed situations and recapitalization.

- The participation feature of preferred shares is another important thing entrepreneurs need to watch out for. There are 3 types of participation as follows: fully participating, non-participating and capped participation. The above classifications are too complex to explain clearly in a bullet, please read the following breakdown to get a clearer understanding of the implications of each term.

- Founders should be careful of having their ownership diluted up to a point whereby they don't have enough skin in the game to care about the outcome. An unmotivated founder could be an early trigger for problems in any startup.

- Founders should be sure that they are comfortable with the compositions of the board of directors as outlined on the term sheet, because the board ultimately has

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veto power to fire the CEO and to decide on major transactions.

- Term sheets also have a list of protective provisions that require approval from VCs, and not just the board, this could be anything from accepting acquisition offer to decisions relating to making or accepting strategic investments in the future. Make sure your lawyer explains all the protective provisions included in the proposed term sheet to you.
- Ensure that you fully understand how control and voting rights are outlined in the term sheet.
- Explicitly ask firms for their policies on syndication. This is particularly important if you plan to raise from multiple investors.

After the Deal

- VC are mainly important for 4 things: Recruitment, business development, strategy and future funding.
- As far as executive recruiting goes, the best VCs are always thinking one step ahead. For instance, a good VC who understands the business he/she invests in thoroughly might know that an entrepreneur need a VP of sales without being explicitly told.
- VCs always gives tons of good strategic advice, it is up to the entrepreneur to aggregate and filter out only the

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relevant advice. Entrepreneurs should be open to all the advice from VCs, but should not blindly accept everything. Some advice is good feedback while some advice is just smoke.

- The best VCs have connections in big strategic companies and could open up executive-level doors in these companies for startups in their portfolios.
- Good early VCs should typically be able to either provide future financing when needed or be able to connect their portfolio companies to later stage investors with larger pockets.
- 80/20 Rule: It is OK to feel in command 80% of the time and to be confused about major decisions 20% of the time. If you are on the wrong side of this rule — confused 80% of the time — talk openly to your board and investors you trust about this. Investors are meant to provide help when you need it, don't be afraid to ask.

The Exit

- Acquisition is the most common type of exit, IPOs are rare. Only about 2–3 percent of VC funded startups achieve an IPO.
- The average venture backed startups that go public are 10 years old according to the NVCA.

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- The most passionate founders view IPOs as an avenue to raise capital needed to get to the next milestone and not purely as an avenue through which to cash out.
- In cases where IPOs do occur, they do not necessarily mean instant gratification for an entrepreneur, rather they expose a company's metrics to scrutiny by brutal public market investors. Going public too early might have brutal consequences for a company, VCs are more understanding and forgiving than public market investors.
- In even rare cases, some companies get acquired after IPOs. Certain milestones are only attainable with the full backing of a much bigger organization.
- The best VCs with the strongest Rolodex can play a vital role in securing a soft landing in the form of an acqui-hire for struggling startups.
- Put your startup on the radar of relevant decision makers in potential acquirer companies as early as possible. This could be by anything from winning away some of their key customers, to networking with relevant executive from potential acquirer companies at industry events.
- Have early conversations with your investors with regard to their exit expectations. Would they try to rush you to sell at $100 million when you would rather wait to get to $10 billion? This conversation should be had

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throughout the lifeline of a company, because the decision to exit is probably the biggest decision an entrepreneur will have to make with investors.

- There is no explicit answer to the question, “when do I sell?”, this should be considered on a case by cases basis.
- Creating scarcity is one of the most powerful tools in exit negotiation. Acquirers who really want in might increase their hands if there are competing offers on the table. That said, you don’t want to make your price so high that you scare all the suitors away. Negotiate within reason.
- Only exit when you are done and you feel confident that you have achieved as much of your vision as you think you possibly can.

General/Miscellaneous Information

- While making loads of money is — more often than not — the ultimate goal of venture capitalist when they invest in startups, the best founders typically view wealth as a side-effect of following a dream to build a great company that has a huge impact. Money is a motivator, but should not be the primary motivator.
- A very important characteristic in the best entrepreneurs is a strong and infectious passion for an

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idea or phenomenon that they spread to everyone that they encounter. They believe that their ideas will change the world, so much so that they will break through steel walls with their heads in the quest to actualize their visionary ideas.

- One of the somewhat counter intuitive driving forces that keeps such entrepreneurs pushing extremely hard even during good times is the inherent fear that everything that can go wrong will go wrong.

- The most successful entrepreneurs tend to accept random meetings with interesting people for no clear reason. The aggregate of these random meetings often evolves into serendipitous opportunities.

- The best entrepreneurs are active users of their products. For instance, Christoph Westphal from Sirtris Pharmaceuticals showed great commitment by going as far as injecting himself with Sirtris's experimental drugs and showed up to some VC pitch meetings with black and blue arms.

- Don't be scared to completely change your idea if you think you are going in the wrong direction. One of the founders in the book, Eric Paley, abruptly switched off from fundraising mode and went underground for 6 months to research a potential idea pivot after an enlightening conversation with a potential customer

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made him realize that he might be pursuing the wrong opportunity.

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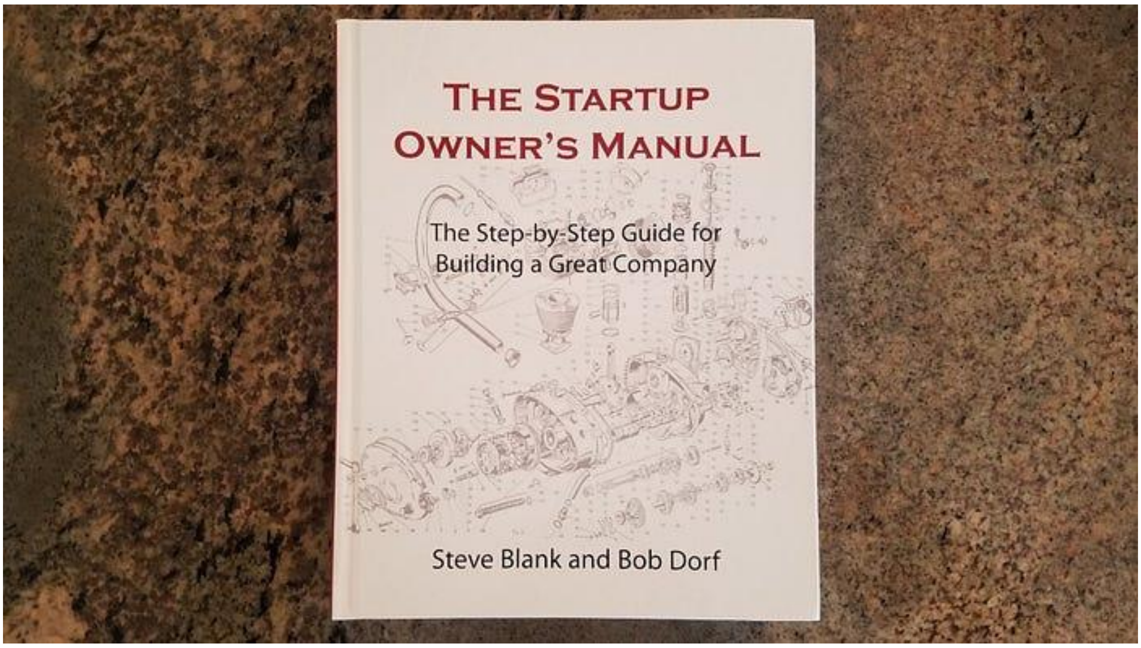
The Startup Owner's Manual: Book Summary and Review



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Book Review

The concept of *The Startup Owner's Manual* is that it's like a car repair manual but for startup owners. In this book, Steve Blank and Bob Dorf detail all the work (and fun) that needs to happen before launching a product. With so much information, it's a big book. In fact, the size is probably how it most resembles an auto manual. "Don't read too much at a time." This caveat appears before the book even starts. Take it seriously.

The organization can be confusing. While this manual takes the reader sequentially through the necessary tasks of starting up the startup, it follows two different tracks at the same time. There are the *Web/Mobile Channels*—your IT, new-economy type channels—and the *Physical Channels*—brick and mortar. The authors say it's helpful to read both sections, regardless of what channel your product happens to be. After some initial confusion, this reviewer personally found it thought-provoking to contemplate both channels side by side. And the differentiated font is useful.

With all the information presented here, it's still easy to get lost. To help with that, there are gobs of checklists. So if checklists are what you need, by God, you will find them here (the appendix contains 60 pages of checklists).

Summary

Getting Started (Chapters 1 & 2)

The authors remind us that the old product roll-out process is totally wrong for startups. That process is appropriate when customers are known and the market is well-defined. This is often not the case for startups.

Customer development, then, is very important for startups, and there are a number of phases in Blank and Dorf's framework:

1. **Customer Discovery**: develop hypotheses and test them with customers.
2. **Customer Validation**: test sales, see if people will buy, and see if you can scale up.
3. **Customer Creation**: marketing.

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4. **Company Building**: transition to a sustainable enterprise.

Each step is iterative and can be repeated, as needed. Furthermore, at any point, a pivot or change of strategy may be necessary. And that's OK—it's not a failure.

Step One: Customer Discovery (Chapters 3–7)

You have to understand your customers; don't make assumptions about them. One of the seminal points that Blank and Dorf make (as do many others) is that customers do not live where you work. In order to meet them at their level, you have to "[g]et out of the building."

Startups should aim to develop the first product for a small target market via a Minimum Viable Product (MVP). The object of the MVP is to get a product out there for the early adapters (called *earlyvangelists* here) to play with. Putting out a MVP forces developers to focus on the important features, not the bells and whistles. The product can be refined once there's customer feedback.

Business Model Planning: The authors recommend the Business Model Canvas (laid out in Alexander Osterwalder's *Business Model Generation*) as a good tool to help explain how the company plans to make money. There are a number of components to the canvas:

- Value Proposition Hypothesis: Includes product vision, features and benefits, and a description of the smallest number of features it would take to make a stand-alone product (i.e., the MVP). Along the web/mobile track, the low fidelity MVP is used to test if you've identified a problem people care about and it employs user stories instead of feature lists.
- Customer Segments: Includes customer problems, needs or passions; customer types (for example, end users, influencers, recommenders, buyers, etc.); customer archetypes; a day in the life of a customer; and a customer organization and influence map.
- Channels Hypothesis: For physical products, this includes a description of how the product gets to the customer. Think about the suitability of channels for your product, and the authors recommend that startups pick just one channel that has the most potential for your product. For web/mobile products, consider the advantages and disadvantages of different channels.
- Market-Type and Competitive Hypothesis: Describes which market a product fits into: established market, new market, extension of an

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existing market, re-segmentation, etc. Once you know the market, you know something about the competition, and you can come up with a preliminary plan for that.
- Customer Relationships Hypothesis: Describes how you will get, keep, and grow customers. For physical products, there are four "get" stages— Awareness, Interest, Consideration, and Purchase. Devise several different "get" strategies and test them. Customer retention programs come into play during the "keep" phase, and the "grow" phase focuses on selling more stuff to existing customers. For web/mobile products, the "get" phase has two stages, Acquire and Activate, which loop back on themselves. The "keep" phase might involve some of the same retention programs as for physical products, but might also include components like emails, digital support, etc. The "grow" phase involves getting current customers to spend more or bring other customers to the product.
- Key Resources Hypothesis: Describes physical, financial, human, and intellectual property resources. This component also includes a dependency analysis: what are all of the things that have to happen that the company can't control, and what are the risks if the things you're dependent on end up failing? Contingency plans are important, here.
- Partners Hypothesis: Involves listing all of the partners you'll need and identifying what you need from them and what they'll get in exchange.
- Revenue and Pricing Hypothesis: Includes the following questions: 1) How many items will we sell? 2) What's the revenue model? 3) How much will we charge? and 4) Is there evidence that this is worth pursuing?

Use this tool beyond a one-time plan and update it once a week. Over time, you'll have a record of the company's evolution.

Size of the Market: When it comes to estimating the size of your market, one way to think about it is as follows:

- Total Addressable Market (TAM): the universe where your product lives
- Served Available Market (SAM): the people that can be reached via your sales channel
- Target Market: those who are your most likely customers

You've got to do research here. Look at industry reports, press releases, libraries—anywhere you can get metrics that help you gauge the size of the market. It's going to be tricky to estimate brand new markets, so consider looking at adjacent markets and see if you can find any comparable companies.

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Testing Customer's Problems: You have to get out of the building to discover:

- How well you understand the customers' problem
- How important the problem is to the customers, and exactly how many customers are talking about it
- If the customers care enough about it to tell their friends

Broadly, the problem discovery process includes the following five steps (*and note*: this process goes faster for web/mobile products than for physical products):

- Design experiments for customer tests: Short, simple, objective pass/fail tests that aim not just to collect data, but also to gain insight.
- Get ready for customer contact: For physical products, contact potential customers that you can test your ideas on. For web/mobile products, this involves developing a low fidelity MVP, which could be as simple as a brochure or web page that states the problem, shows people your solution, and solicits customer feedback.
- Test how customers perceive the problem: A problem presentation (not a product demonstration) for physical products that illustrates your understanding of the problem and your proposed solution. For web/mobile products, this is where you test your low fidelity MVP, validating your hypothesis and all your assumptions about the customer.
- Understand customers: This goes beyond simply validating assumptions about customer problems; it entails understanding how customers go about their day/lives and how they are (or are not, as the case may be) currently solving the problem.
- Get information on the market and competition: Understanding the environment in which a physical product is operating may involve going to trade shows, conferences, competitor lunches, etc. These tools also work for web/mobile products, as do traffic-measurement tools like Alexa.

Testing Your Solution: Following customer problem testing, this phase tests the solution, and the authors detail five steps here:

- Update the business model and team: See how the new information fits with the old hypothesis, and decide if a change of strategy (pivot) is needed or whether proceeding makes sense. This is also the time to share what you've learned so far about the customer with top management and investors.

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- Create a product solution presentation (physical) or high fidelity MVP test (web/mobile)
- Test the product solution: See what customers think by asking them about everything, including features, channels, etc. And for web/mobile products, measure customer behavior.
- Update the business model (yes, again): Using what you've learned from the solution tests, update the business model and decide (yes, again) whether to pivot or proceed. Low customer enthusiasm at this stage is a huge red flag!
- Find board members: It's good to get some friendly outside help.

Verifying the Business Model: Still not at launch yet, this phase of the customer discovery process involves answering three critical questions:

- Have you found product-market fit? You *have* to be sure your product is a good fit with the market. Is this something a lot of people need? How well does it solve the problem it's made to solve? How many people would buy this thing?
- Who are your customers and how do you reach them?
- Can you make money and grow the company? Figure out if your solution is a winning proposition. Crunch the numbers and do a rough estimate to see if there's any chance that you can make money with your new product.

And, you guessed it, at this point you should once again pause and decide whether to pivot or proceed.

Step Two: Customer Validation (Chapters 8–12)

Customer validation means test selling at every point in the process (all the while keeping costs low—it's not the time to scale up yet). Blank and Dorf detail four phases in the customer validation process:

- *Phase I.* Get ready to sell.
- *Phase II.* Go live. Try to sell.
- *Phase III.* Refine your product. Position your company.
- *Phase IV.* Analyze. Pivot or proceed.

Founders *cannot* lead from a distance here; they have to be directly involved in process.

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Phase I—Get ready to sell

Steps for this phase of customer validation really are different for each channel, so it's helpful to consider each separately.

For physical products, this phase begins with making a positioning statement: a message (it should be pithy but compelling) that explains why people should buy your product. Then, customer-focused sales and marketing materials should be developed largely from the information that you generated in the hypothesis you created for the customer discovery process. (Remember, acquiring customers in this channel is a four-stage process of awareness, consideration, interest, and purchase.) The authors recommend that this is an opportune time to bring sales professionals on board.

You and your team will also need to develop a sales channel roadmap which covers the organizations in the organizational food chain, the relationships in the distribution channel, and how money moves in the channels. When it comes to managing channels, work on the relationships with your channel partners. Think about what you need from them and what they need from you. And don't expect your channel partners to help generate demand.

Then you will develop the sales roadmap, which accounts for every step from the first sales call to the contract signing. Keep in mind what you've learned about the customer and revisit some of the materials (especially the organization and influence maps) you developed back in the customer discovery stage. Make a model of the purchase process, and identify key influencers.

A Customer Access Map can help you identify organizations that customers belong to (if you're selling to the public) or key deciders in the organization (if you're selling to a business). Put all the maps next to each other, also considering the sales strategy, and write an ImplementationPlan that shows everything that has to happen before selling your product.

For web/mobile products, the Get Ready to Sell phase involves first refining plans and developing tools to acquire and activate customers.
Remember: *acquisition* is when the customer first hears about the product and *activation* is when customers participate, enroll, or do something. Don't launch the Acquire effort unless the Activation program is ready for customers, and the key to the latter is engagement. Also, measure everything!

Then, using the information you've gathered to build previous versions, you're going to build a high fidelity MVP, which will have more features than the last one. It's definitely more polished, but it's still not the complete, finished product. Be sure to capture as much data as possible on customer reaction to the new MVP. From there, collect data, analyze and optimize—so it goes from the moment a web/mobile business opens its virtual doors until the day it dies.

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Use the customer relationships hypothesis to guide your selection of metrics to track and prioritize the metrics. Only track things you can measure and improve: acquisition (How many visitors to your site? Were they referred from another site?); activation (How many activations? What pages did they look at on the site?); and referrals (How many people were referred from existing users? What's the acceptance rate of these referrals?) Use a dashboard or something similar to keep an eye on the data. Speaking of data, you need someone to crunch the numbers, and Blank and Dorf recommend hiring a data analytics chief. This person should be in senior management and they should have clout. It can be someone already on your team or someone new.

Finally, in an author recommendation that is applicable to both physical and web/mobile products, recruit and keep only board members who can help you. Do they have important connections? Do they have really good ideas that could help the company? Lots of times, it's helpful to have customers on the board. They can bring their perspective.

Phase II—Get out of the building and sell

In this phase, you are validating your business model hypothesis, but you are still testing (by making real sales). Don't try to scale up yet—the object of your sales is to test your business model.

For physical products, you don't need a lot of customers, just a few. Remember those early adopters/*earlyvangelists*? These people are your natural market. But don't forget that what motivates them probably isn't what motivates your average Joe. There are different kinds of customers (for example, early evaluators, earlyvangelists, scalable customers, and mainstream customers), and you should have a separate strategy for each of them.

Customer interest for physical products is tested by seeing how much people will pay for the shiny new thing. Maybe give people a discount from (what you say is) the full price, but not too much. (*Predictably Irrational* by Philip E. Tetlock and Dan Gardner has some great insight on pricing schemes.) In any event, get out there and sell. Once you have sales, you will have data. Collect it all. But pay attention: Did you get enthusiastic customer response with your Shiny New Thing™? Not so much? Is it because of something that needs to be fixed with the test sell, or is it something with the product? Watch for your pivot or proceed moments here.

Your approach to sales will depend on whether you're selling to consumers or companies. With companies, you're trying to reach executives with decision-making power. With the public, you're segmenting the market. Pull out your old Sales Roadmap; that's an important way to communicate with your sales VP. Write the roadmap as a flow chart, and include each step of the process. Don't forget: after a sale is made, someone has to follow up with the actual transaction and see that the customer gets their thing. Make sure this is part of your roadmap.

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Finally, once you have customers, you can test the sales channel. Approach a potential channel partner and share some of your metrics and projections; tell them your idea. You should have questions for them about their channel—for example, what kind of percentage do they want? They might go for your offer right away, or they might want to test your idea first by maybe selling your product in their stores first to see if they do well. Check out a number of different potential channel partners.

Shifting gears, for web/mobile products, you need to prepare optimization plans and tools. Optimization is all about getting more out of everything—for example, if you have a 6% activation rate, try to push it up to 10%. Try for measurable improvement in each thing you measure. This is a continuous process that won't end until the business either folds or goes public. Optimization should be focused on increasing volume, reducing cost per activated customer, and increasing the conversion of visitors to users. The authors offer some advice on optimization testing:

- know what you're testing and why
- don't over-test
- tests should be controlled and follow accepted protocols
- remember the value of the customer over their lifetime, not just for this one transaction

For web/mobile products, the strategy for getting more customers depends on your business model. For example, subscription services might offer a free trial to new users. Be sure to attend to issues: what's important, what's disappointing, what results in the best customers, etc. Test a wide range of incentives and discounts. And don't optimize too many things at once. You need to be certain about causes and effects.

But do optimize the "keep" and "grow" components. It's cheaper to keep old customers than to get new ones. When focusing on "keep," go back to your customer relationship hypothesis, where you developed some ideas for customer retention (loyalty programs and so forth). Launch a few of these. Be sure to track everything. Some programs are cheaper than others, so track your costs. In the "grow" segment, get your customers to buy more (perhaps give discounts for large orders and similar tactics), and have your existing customers draw in new customers.

Finally, you need partners to drive traffic to your new website, and there are strategies for using partner sites to promote yours. But don't be surprised if potential partners aren't excited by your cold call. Try to emphasize the benefits of partnering with you.

Phase III—Positioning phase

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Your positioning should match your market. For existing markets, you want to be different, yet credible. You want to solve a problem that's important to people.

For a new market, you want to explain your vision. What is your company trying to change?

At this point, go back and look at the Positioning Statement you wrote during the customer validation phase. How did it survive the validation process? If the customers didn't love it, do you understand the reasons why? Also, meet with the key influencers that you identified back in the customer discovery phase. Now is the time to meet with them. Test to see if these influencers and other industry analysts will say good things about you.

Finally, don't let anyone tell you that you need a PR agency—your customer development people, with input from the product development people, can do the job just fine at this point. But do conduct a position audit to see how others see your company and your product. This will give you a baseline to compare against.

Phase IV—Pivot and/or proceed

This is probably the most critical pivot and proceed you will have. Review and analyze all the material you've generated; make sure that there are solid answers to the hypotheses. Look at your business model and how it's changed through this process. Do your metrics provide evidence that this is a scalable endeavor that could turn a profit? This is important, and the authors provide insight into "Metrics that Matter" (for example, total number of units sold, selling price, etc.).

Review your financial models. Revenue growth curves are different depending on the market type: growth in a new market company will look like a hockey stick on a graph, slow at first and then taking off; an existing market shows a steady rate of growth. The numbers that you have are your best guess, but remember that nothing is certain, even this late in the game. Also reevaluate the business model, value proposition, and product delivery to be sure they are the right fit. The revenue should be high and the costs low.

In short, look at everything again. It can be hard after all this work to go back to the drawing board, but it's OK if that's what you must do. Otherwise, if everything checks out, take a night off. No, make that a week. You'll need the rest. There is still plenty more work ahead.

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