Chapter 14. What Stage Are You At?

You can't just start measuring everything at once. You have to measure your assumptions in the right order. To do that, you need to know what stage you're at.

Our Lean Analytics stages suggest an order to the metrics you should focus on. The stages won't apply perfectly to everyone. We'll probably get yelled at for being so prescriptive—in fact, we already have, as we've tested the material for the book online and in events. That's OK; we have thick skins.

In a startup, your business *model*—and proof that your assumptions are reasonably accurate—is far more important than your business *plan*. Business plans are for bankers; business models are for founders. Deciding what business you're in is usually quite easy. Deciding on the *stage* you're at is complicated. This is where founders tend to lie to themselves. They believe they're further along than they really are.

The reality is that every startup goes through stages, beginning with problem discovery, then building something, then finding out if what was built is good enough, then spreading the word and collecting money. These stages—Empathy, Stickiness, Virality, Revenue, and Scale—closely mirror what other Lean Startup advocates advise.

1. First, you need *empathy*. You need to get inside your target market's head and be sure you're solving a problem people care about in a way someone will pay for. That means getting out of the building, interviewing people, and running surveys.

2. Second, you need *stickiness,* which comes from a good product. You need to find out if you can build a solution to the problem you've discovered. There's no point in promoting something awful if your visitors will bounce right off it in disgust. Companies like Color that attempted to scale

prematurely, without having proven stickiness, haven’t fared well.

3. Third, you need *virality*. Once you’ve got a product or service that’s sticky, it’s time to use word of mouth. That way, you’ll test out your acquisition and onboarding processes on new visitors who are motivated to try you, because you have an implied endorsement from an existing user. Virality is also a force multiplier for paid promotion, so you want to get it right before you start spending money on customer acquisition through inorganic methods like advertising.

4. Fourth, you need *revenue*. You’ll want to monetize things at this point. That doesn’t mean you haven’t already been charging—for many businesses, even the first customer has to pay. It just means that earlier on, you’re less focused on revenue than on growth. You’re giving away free trials, free drinks, or free copies. Now you’re focused on maximizing and optimizing revenue.

5. Fifth, you need *scale*. With revenues coming in, it’s time to move from growing your business to growing your market. You need to acquire more customers from new verticals and geographies. You can invest in channels and distribution to help grow your user base, since direct interaction with individual customers is less critical—you’re past product/market fit and you’re analyzing things quantitatively.

So, as we shared in Chapter 5, we suggest these five Lean Analytics stages, and we believe you should go through them in the order shown in Figure 14-1, unless you have a really good reason to do otherwise.

While many of the examples we’ve looked at are technology companies—and many of those are B2C (business to consumer) companies—these five stages apply equally well to a restaurant as they do to an enterprise software company.

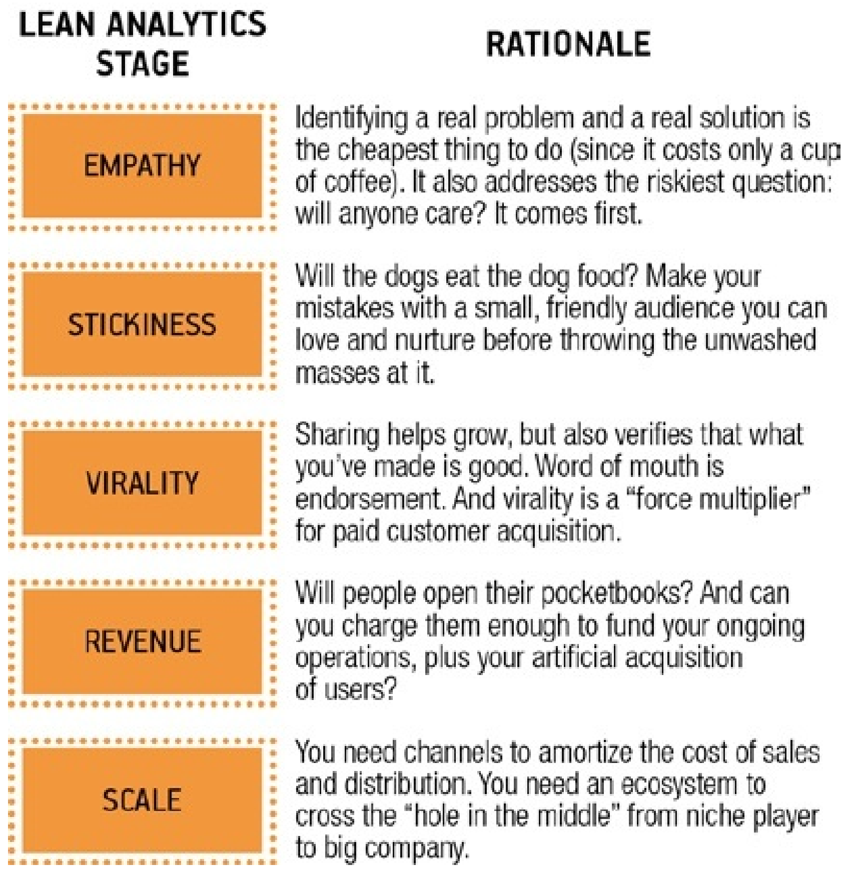

Figure 14-1. Why we put the five stages of Lean Analytics in that order

Consider a restaurant:

1. **Empathy:** Before opening, the owner first learns about the diners in the area, their desires, what foods aren't available, and trends in eating.

2. **Stickiness:** Then he develops a menu and tests it out with consumers, making frequent adjustments until tables are full and patrons return regularly. He's giving things away, testing things, and asking diners what they think. Costs are high because of variance and uncertain inventory.

3. **Virality:** He starts loyalty programs to bring frequent diners back, or to encourage people to share with their friends. He engages on Yelp and Foursquare.

4. **Revenue:** With virality kicked off, he works on margins—fewer free

meals, tighter controls on costs, and more standardization.

5. **Scale:** Finally, knowing he can run a profitable business, he pours some of the revenues into marketing and promotion. He reaches out to food reviewers, travel magazines, and radio stations. He launches a second restaurant, or a franchise based on the initial one.

Now consider a company selling software to large enterprises:

1. **Empathy:** The founder finds an unmet need because she has a background in a particular industry and has worked with existing solutions that are being disrupted.

2. **Stickiness:** She meets with an initial group of prospects and signs contracts that look more like consulting agreements, which she uses to build an initial product. She's careful not to commit to exclusivity, and tries to steer customers toward standardized solutions, charging heavily for custom features. Her engineers handle customer support directly, rather than having an "insulating layer" of support staff in this early stage, so they have to confront the warts and wrinkles of what they've created.

3. **Virality:** Product in hand, she asks for references from satisfied customers and uses those as testimonials. She starts direct sales and grows the customer base. She launches a user group and starts to automate support. She releases an API, encouraging third-party development and scaling potential market size without direct development.

4. **Revenue:** She focuses on growing the pipeline, sales margins, and revenues while controlling costs. Tasks are automated, outsourced, or offshored. Feature enhancements are scored based on anticipated payoff and development cost. Recurring license and support revenue becomes an increasingly large component of overall revenues.

5. **Scale:** She signs deals with large distributors, and works with global consulting firms to have them deploy and integrate her tool. She attends trade shows to collect leads, carefully measuring cost of acquisition against close rate and lead value.

We’ll continue to use these five stages and correlate them to other frameworks as we did in Chapter 5. We’ll also outline the individual gates that you need to pass through as you move from one stage to the next.[50]

We care a lot about company stage because the metrics you focus on will be significantly impacted by the stage of your business. Premature focus or optimization of things that don’t really matter is a surefire way of killing your startup. So let’s dig into the five Lean Analytics stages.

Pick the Stage That You’re At

What stage do you think you’re at? Write it down. After reading the following chapters on the five Lean Analytics stages, see if your answer changes. It will likely require more detail as well—zeroing in on a specific aspect of a stage that you’re focused on (for example, problem validation or solution validation in the Empathy stage). You may be overlapping between stages, too, so read them all before deciding.

---

[50] It’s worth pointing out that Lean founders consider payment, virality, and stickiness three Engines of Growth, and that a company can pivot from one to the next. We prefer to think of them as three things to optimize: a good startup has payment (and investment in customer acquisition), stickiness (and recurring revenue), and virality (and the resulting word of mouth). You can focus on one at a time, but we think you should build all three—and their related metrics—into your startup as you grow.