Slip into lean mode to raise the odds of startup success

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The strategic use of low-cost disruption trials instead of grand plans can keep new businesses from failing

Within three years of its inception, Startup India, like most government initiatives, was claimed to be a runaway success. Without setting targets at the beginning, how could one know?

An IBM Institute study finds that 90% of Indian startups fail within the first five years of inception. Wasn't it premature on the part of Startup India to pat itself? According to the programme, over 27,000 startups were registered till 2020, with over 150,000 jobs created. For a country with over 12 million graduates entering the job market annually, does this sound like a grand success? What are the goals of Startup India for 2022, when it completes six years? That could tell whether India is an "innovation nation".

Of the numerous reasons why Indian startups fail early, almost all are related to innovation and leadership: weak business models, poor planning, faulty customer insights, or lack of original ideas, focus, agility and tech capability, apart from leadership gaps. Nearly 80% of venture capitalists feel Indian startups lack unique business models, as the majority simply copy successful models from elsewhere without unique local insights.

Startup India should not subscribe to the myth that startups are a sort of 'Steve Jobs arrives on a clamshell and the world is changed forever' story. As the doyen of the lean startup movement Steve Blank puts it, a disciplined approach, like a discovery driven disruption (DDD) framework, can reduce the failure rate dramatically—and at lower costs.

The core idea of DDD is that rather than creating an expensive, risky plan for an uncertain venture, one must break it into stages. At each stage, identify and test assumptions, ideally at lowest possible cost and time. That will de-risk venture make an early exit possible if things don't turn out as expected. Instead of fearing failure, one can then turn the question into: 'What is it worth to our organization to learn something?' Whatever the outcome, if the answer is found to be worth the investment, it need not be written off as a failure.

uncertain business ideas, one can't know the result a priori. Instead, the goal is to learn as much as possible at as low a cost as possible, while always being ready to redirect activities as and when new information unfolds. Here, one invests resources that one can afford to lose for the generation of knowledge needed to commit more. It begins by specifying a performance outcome that would make growth efforts worthwhile. Define success upfront, as well as what-next guidelines after these goals are met. Thereafter, other discovery-d are used to get closer and closer to that goal, containing risk and downside exposure until uncertainty is reduced to a point that one can confidently invest more to capture the targeted business.

As the plan unfolds, the assumption-to-knowledge ratio gets reduced. When it is high, there is high uncertainty. As the ratio shrinks, one must focus on hard outcomes.

Startup India and similar Startup Missions run by Indian states could switch into this lean startup mode by teaching their cohorts five basic steps that are not difficult to follow:

the growth frame for the startup. The outcome is a set of guidelines for the types of initiatives to be pursued. As a result, everybody will be clear about what kinds of opportunities are legitimate and aligned with the business.

Create an opportunity portfolio: Analyse how resources are being allocated to the business and consider how these allocations would need to change. Take a portfolio-view of different types of growth opportunities. How much profit and cash flow must the core business generate? How much to scale up? How much should go into low-cost, high potential opportunities for future platforms? The typical portfolio of initiatives will contain a mix of short-term projects designed to enhance positive cash flows with low cash-drain, and high potential projects poised for rapid growth.

Manage strategic projects: Start with identifying a 'unit of business' that will create the architecture of a business model. A unit of business is literally the unit of what you sell—what the customer pays for. You may find, as you progress on the discovery-driven plan, that the unit of business you started off with doesn't deliver what you wanted, and so needs correction. A rethink is often necessary to define the metrics of success.

Connect plans to financials: Keep the plan connected to reality. Construct a reverse income statement and reverse balance sheet. Tie together the decisions made in the earlier steps and simulate future business, allowing for speculative what-if scenarios, and see that it's realistic. All this while investment in the future business stays extremely small.

Convert assumptions into knowledge: The identification, documentation and testing of assumptions is done here. Develop a checklist for operation specifications and assumptions, and also the financial logic that underlies the business model. Work out how operational activities and assumptions are linked. Sometimes projects need to be redirected, even if business founders vaingloriously try to execute an increasingly unrealistic idea.

Unlike numerous management frameworks that find examples to fit their theory, DDD has worked well even for big enterprises in disrupting their own businesses.

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