



# VIT<sup>®</sup>

**Vellore Institute of Technology**

(Deemed to be University under section 3 of UGC Act, 1956)

**School of Information Technology and Engineering**  
**Digital Assignment-I, AUGUST 2020**  
**B.Tech., Fall-2020-2021**

NAME	PRIYAL BHARDWAJ
REG. NO.	18BIT0272
COURSE CODE	MGT1022
COURSE NAME	LEAN START-UP MANAGEMENT
SLOT	TE1
FACULTY	Prof. GANGATHARAN C.

## **WHY THE LEAN START-UP CHANGES EVERYTHING? – STEVE BLANK**

### **REVIEW SUMMARY**

In the 20<sup>th</sup> century, venture capitalists told early stage ventures, that start-ups were nothing more than smaller versions of larger companies. Everything that large company did, start-up needed to do. They write a business plan; you write a business plan. They write a five-year forecast, that is a hundred million dollars in your pipes, so were you. They hire VP sales, marketing, biz dev and need waterfall engineering to execute, so will you. Not everyone is understanding that large companies were actually executing their own business models, but start-ups were searching for business models. But we did not have that language to understand that distinction. We also did not understand that for hundred years business schools have been turning out strategy, theory, practice for execution, creating the whole category of management called Masters of Business Administration. And they did a good job, creating people who knew how to administer, here is the key idea: existing companies. But we had very few tools other than go and write a business plan, to tell start-ups and founders that what they were doing was something different than what people were executing in large companies.

That is what Lean Start-up was. It was the first management tool to set start thinking about either a new venture or trying to be an entrepreneur inside of a large corporation. Lean Start-up methodology said that if we understand we are searching for business models rather than executing them, we realise that most of what we have on day one in a start-up is untested set of hypotheses, which really means you have to guess for most of your stuff. You may have known technology but most of other pieces about commercialization, what is the right channel, what is the right pricing, what is the right feature, who are the right customers, what activities and resources you need to do, was enormously wasteful because we bubbled through that and enough companies succeeded and venture capital made money.

What Lean Start-up said: why don't we use a way and admit that they are just hypotheses and use a piece of methodology invented by Alexander Osterwalder where we use a Business Model Canvas, which is a single piece of paper that allows us to write down our hypotheses. And in a 2<sup>nd</sup> piece it says, thank you for writing down these hypotheses, we are now going to force you to get out of your office, and test them in front of customers right now. Not later, not when you ship, not whenever, but from day one. And it does not matter if you are a technical founder, we are going to teach you how to make eye contact. As soon as you test all those hypotheses on a Business Model Canvas, then the 3<sup>rd</sup> component of that testing was Eric Reis's (Father of The Lean Start-up Movement) contribution. So Lean Start-up was Business Model Canvas, customer development mind, and Eric Reis's contribution, that still needed waterfall engineering. In 21<sup>st</sup> century, we invented agile. We got to use agile engineering to build protocol minimum viable products. Minimum viable product is not a prototype. Minimum Viable Product is whatever gets us the most learning at that time apart if the hypotheses. It could be a spreadsheet, software, wireframe. It could be a cardboard mock-up. We are not just talking to people, but we are actually testing each part of the business model. So, those three components: business model design, customer development and agile engineering make up a

Lean Start-up. The best survey of this was the cover of Harvard Business Review, May 2013, which said the Lean Start-up changes everything in this case for companies.

In business model design, instead of writing a business plan like we have a series of facts we actually use Alexander Osterwalder's business model canvas. What we really have on day one is a series of untested hypotheses and so we have entrepreneurs go through actually writing down all of their hypotheses and a business model is just a fancy word for what is it that you are going to deliver to your customers and how you are going to make a profit for yourself. The business model and the business canvas talk about those nine components that make up any company from a start-up to a large one i.e. what is the value proposition, fancy word for what product you are selling, who is the customer, what is the channel, how you are creating demand, how you are going to make revenue, who are the partners, what kind of resources, activities and costs. In the old days we probably would have stopped here saying we have got this all written down but we now know the 2<sup>nd</sup> step which is equally important which is Steve Blank's contribution. It is the phase called customer development.

Customer development starts from the insight that there are no facts inside your building so get outside. All it is, is a kind of method of when you get outside and then you think what you are supposed to do. It is the question what you are supposed to do step that turns the hypotheses in business model into facts. And then the 3<sup>rd</sup> piece that make up the Lean Start-up is something called agile engineering.

If you are an engineer then you desperately want to build your entire product all at once before you show it to anybody. When you do that there is a 90 plus percent chance that you are going to have a tonne of unwanted features and you are going to miss the right ones that the customers wanted. Agile engineering simply says that we should build the product incrementally and iteratively so we are not getting unfinished products but we are getting customer feedback to test these hypotheses.

These three things: business model design, customer development and agile engineering is the new toolset for searching for a new business model. Doing this does not guarantee success but it definitely decreases your failure rate because you will find out very quickly whether you need to iterate your pivot. If you are a world class founder, you are vision driven because that is what it takes to get you up when everyone is doubting. You need to be the keeper of the flame. It used to be that we wanted a 120% of your brain focused on that vision. But now we have enough data that says, no, we do not. We want around 99.7% of your brain focused on that vision and drive to that goal.

Lean is not a substitute for passion, speed and energy, but it allows us to be incredibly frugal with time, resources, dollars, people etc. Lean and customer discovery is not a giant focus group, it is not an accounting exercise. Being frugal is one failure mode, using customer discovery as an excuse for attention deficit disorder is another failure mode.

There are lot of people that do not understand that lean comes from lean manufacturing. It is actually a scientific, systematic way of eliminating waste and promoting productivity and modern companies. Lean start-up is a specific extension if you will, a second half or a missing half of lean which is about rather than figuring out how to build the product specification efficiently, this is about efficiently figuring out which product to build in the first place. So, it does not mean cheap, it does not mean small, it does not mean skinny emaciated, it just means working with maximum efficiency towards discovering what the product is. The 2<sup>nd</sup> thing is the word start-up. People sometimes think by start-up it means Silicon Valley, venture funded companies only but the modern company is subject to the same forces of disruption as any tiny start-up and if you want to be successful in the future, what is needed is a continuous innovation factory and that is what lean start-up is really about. Every modern company must have internal start-ups that are run by real entrepreneurs to survive, in order to create the new products that will develop new sources growth. So, we think of the lean methodology as a management science for the entrepreneurial part of the management portfolio.

If we look at the companies that have really embraced this methodology in an explicit way, companies like GE, Intuit, Toyota, the originators of lean now taking this idea back into the factory, these companies have something in common. They are some of the best run companies in the world and they recognize that the challenges in the new sources of growth and innovation that they face are not happening in spite of the fact how well they are run, they are actually necessary consequences of executing the last century's management playbook extremely well.

\*\*\*\*\*