

Lean startup concepts

“Existing companies execute a business model; startups *search* for one.”

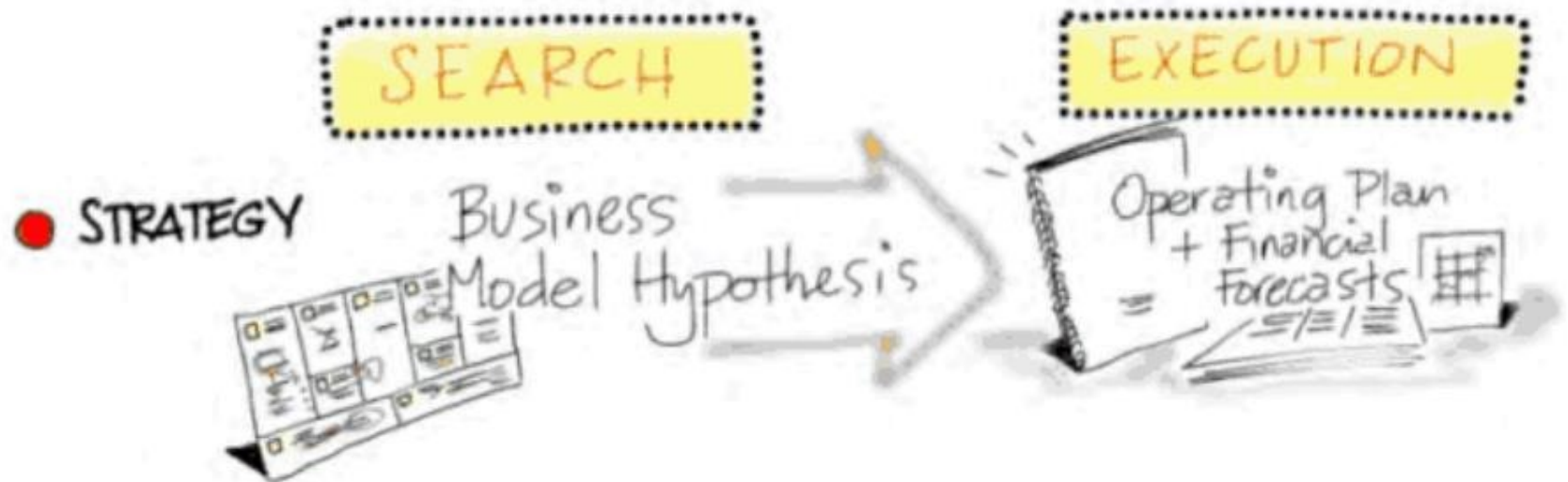
WHAT A STARTUP IS

Why not a business plan?

- Business plans are full of untested assumptions and rarely survive first contact with customers
- Nobody, aside from venture capitalists and the former Soviet Union, requires five-year plans to forecast a series of unknowns.
- Startups are not smaller versions of large companies. Successful startups go quickly from failure to failure while adapting, testing new iterations, and improving ideas with continual feedback from customers

The lean launch pad approach

Strategy: Business Model to Operating Plan



The emphasis on *search* for a business model versus *execution* of a plan is at the heart of the Lean LaunchPad curriculum.

Key principles

1. Instead of engaging in months of research, entrepreneurs recognize that all they have is a series of untested hypotheses – good guesses
2. Lean startups “get out of the building” to test their hypotheses and collect evidence about whether they are true or false – this is *customer development*
3. Lean startups practice *agile development* by working iteratively and incrementally with the customer – this process leads to the *minimum viable product*

(a) Favorite quote

"My goal in advocating a scientific approach to the creation of startups is to channel human creativity into its most productive forms, and there is no bigger destroyer of creative potential than the misguided decision to persevere."

- Eric Ries, [The Lean Startup](#) (2011: p 149)

The Lean Startup BY ERIC RIES



Motivation and intent (long version)

- Startups can shorten their product development cycles by adopting a combination of business-hypothesis-driven experimentation, iterative product releases, and "[validated learning](#)".
- If startups invest their time into iteratively building products or services to meet the needs of early customers, they can reduce the market risks and sidestep the need for large amounts of initial project funding and expensive product launches and failures.

Motivation and intent (shorter version)

- Build – Test – Learn
- Build products (services) iteratively to meet the needs of early customers – reduce market risks and funding needed to find successes and failures.
- Test hypotheses about customer behavior
- Learn from their reactions to your product (service)

Terms from Lean Startup

- Innovation accounting
- Minimum viable product
- Continuous deployment
- Cohort analysis
- Split testing
- Actionable metrics
- Pivot

Minimum viable product

- "version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort."
- Goal of an MVP is to test fundamental business hypotheses (or leap-of-faith assumptions) and to jump start learning process as quickly as possible.

Continuous deployment

- A process “whereby all code that is written for an application is immediately deployed into production,” which results in a reduction of cycle times.
- Ries states that some of the companies he’s worked with deploy new code into production as often as 50 times a day.

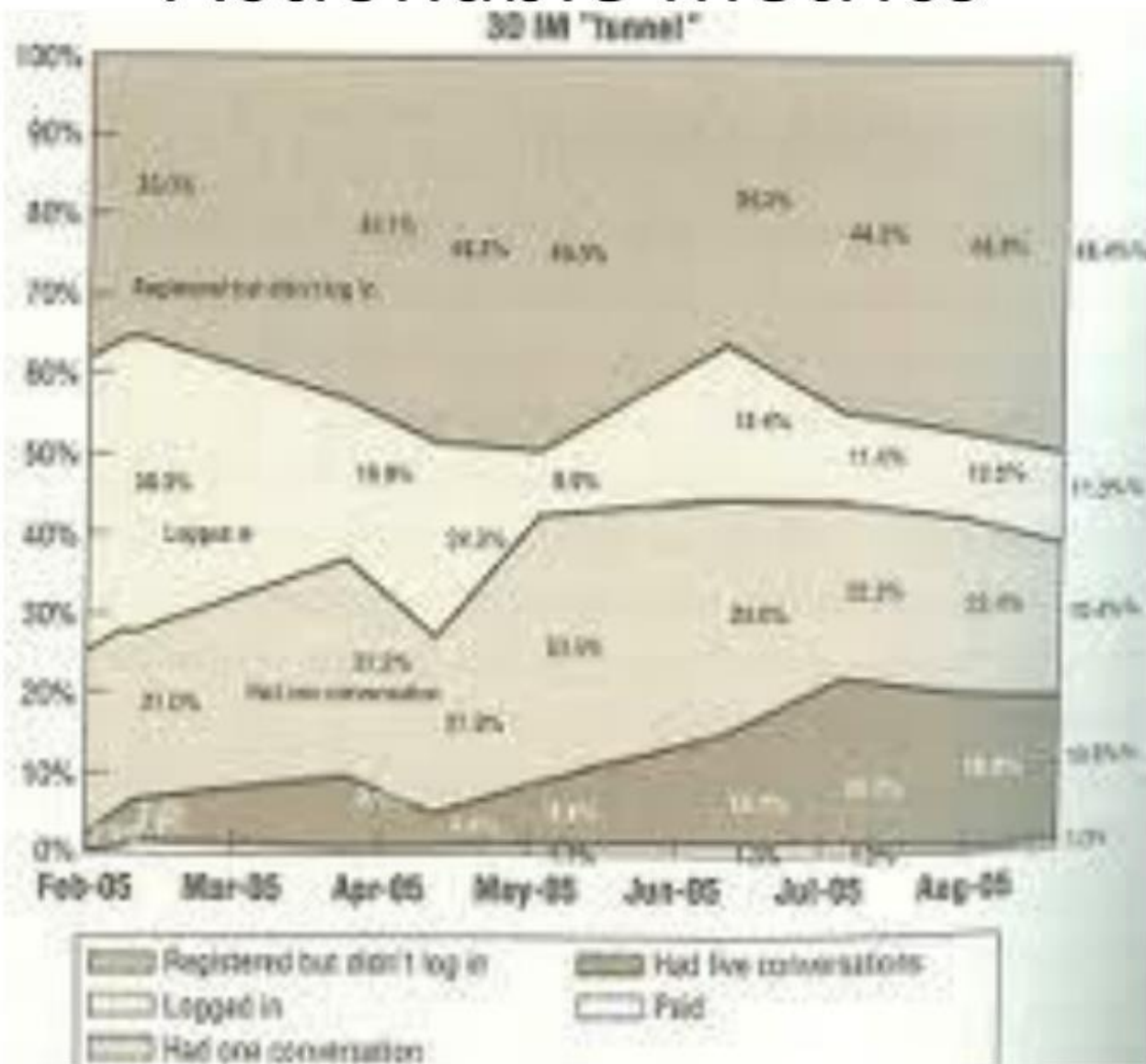
Cohort analysis

- A split or A/B test is an experiment in which "different versions of a product are offered to customers at the same time."
- Goal is to observe differences in behavior between the two groups and to measure the impact of each version on an actionable metric.
- A/B can also be performed in serial fashion where a group of users one week may see one version of the product while the next week users see another

Actionable metrics

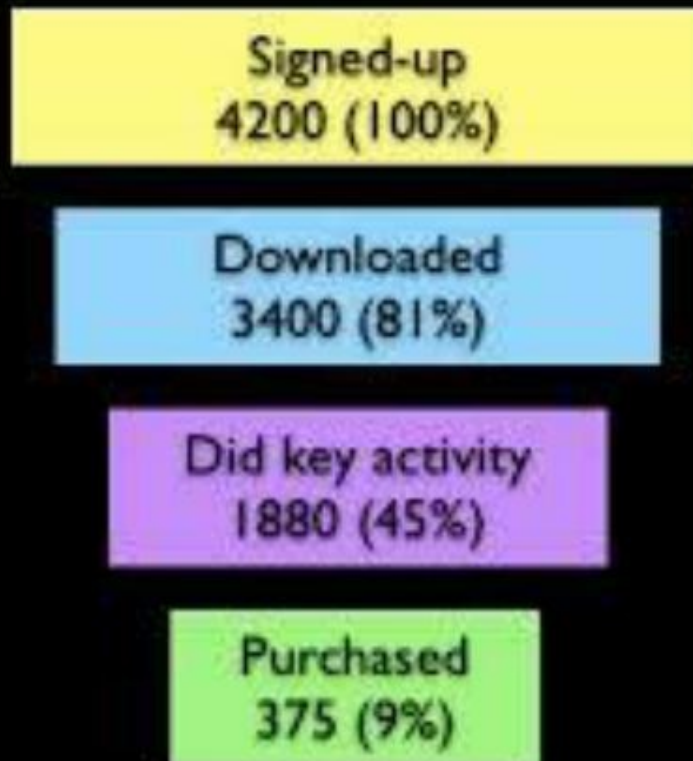
- Measures that can lead to informed business decisions and subsequent action.
- IMVU used “funnel metrics” that were critical to company growth:
 - Customer registration
 - Download of application
 - Trial, repeat usage, purchase
- Contrast to 'vanity metrics' - measurements that give “the rosier picture possible” but do not accurately reflect the key drivers of a business.
- For example, a company specializing in creating web based dashboards for financial markets might view the number of web page views per person as a vanity metric as their revenue is not based on number of page views.

Actionable metrics



Actionable metrics

Conversion Funnel for June



Pivot

- a “structured course correction designed to test a new fundamental hypothesis about the product, strategy, and engine of growth.”
- E.g., When Groupon first started, it was an online activism platform called The Point.
- After receiving almost no traction, the founders opened a WordPress blog and launched their first coupon promotion for a pizzeria located in their building lobby