Lean Startup Methodologies

Quick History Of Lean

- Quick history of lean
- Mighty Ducks
- Software makes a great modality for coaching lean, but the framework can and should be used for all types of startups and small businesses.

Why Do We Teach This Stuff?

- There is no panel of strangers waiting to invest in your idea and take it to the next level.
- We’re oftentimes overwhelmed by how big the total task is that we need a framework for breaking it into smaller pieces that are accomplishable on a daily and weekly basis. The ‘Taking A Bite Of The Elephant Theory Of Economics’.
- 100% of your pre-revenue customers, friends, family, and your ego are ALL LYING to you.

Traction Is The Only Thing That Really Matters At This Stage

- Traction is what makes you investable
- Traction is what leads to the revenue that turns into your oxygen
- Traction is what answers the two most important questions we must answer:
    - Is value being provided to the customer
    - Is something powering our growth in a sustainable, scalable, and replicable way

What Is Your Vision?

- Each startup has a vision…a true north…and end goal and a dream about what this could look like when fully executed. We don't want you to forget this vision. We simply want you to acknowledge that we wouldn't need maps if all we had to do was drive in a straight line from point A to B. We might have to take some backroads, tunnels, and cross a few treacherous mountains to get to our destinations.

- We have to learn how to sacrifice many aspects of our vision in the short-term in exchange for launching sooner, re-launching faster, pushing new products and experiments, and simply driving this thing regardless of what is at our disposal in the moment.

What Is The Definition Of A Startup

- A human institution designed to create a new product or service under conditions of **extreme uncertainty**.
- Everything we think we know is going to happen to our business, product, and team is a **drunken guess**.

At The Earliest Stages, Learning Is Traction

- When we say “learning”, we mean VALIDATED LEARNING. Normal learning is like reading a book. Validated learning is like taking the information from a book and proving it works in the real world. We need to do both, but validated learning is more valuable. Validated learning is proven with scientific facts, evidence, and proof that demonstrable improvements in your company are happening.

- What do you think is more valuable, raising $50K for a pre-launched startup or having earned $10K in revenue in a repeatable way? The second seems lame and like it’s less, but it’s much more valuable. It implies you’ve learned things that were guesses and are now facts. It implies learning as a form of traction, to which fundraising is not. It’s like, the investment is being given a fish and the revenue is being taught to fish.

- Learning doesn’t impress your friends, the press, most investors, or the bank. So undisciplined entrepreneurs put it off and ‘play entrepreneur’ instead. In the early days we need to have the mindset of Sherlock Holmes seeking validated learning about THE TWO QUESTIONS, value and growth.

    - The Value Hypothesis: is value being provided to the customer? Do they love your offering?

    - The Growth Hypothesis: is something powering your growth that is sustainable, replicable, and scalable?

Value VS Waste

- When deciding what to work on, we need to become more disciplined at first asking ourselves if the result of that action will create value for the customer?

- Remember, our customers don't care if trolls underneath a bridge are creating the product or service as long as their problem is being solved. So if they don't care, why do we romanticize how it's getting done?

- The Learning Paradox/Analysis Paralysis - doing secondary research and planning for too long in an effort to de-risk something that can't be fully de-risked…is an example of waste. There is a quick law of diminishing returns with this type of learning that should be stopped soon into the exercise.

The Scientific Method

- No ifs, ands, or buts…all we start with is a hypothesis; AKA an educated GUESS about what our business model (structure, price, distribution, feature-seat, etc.).

- We turn that guess into a fact with a series of experiments.

- These experiments methodically test independent variables against dependent ones. This allows us to validate what is moving the data.

- Upon completion of the experiment we examine our educated guess and decide what farther experiments are needed to farther validate our vision. We repeat this process forever.

The Lean Startup Is The Scientific Method For Entrepreneurship

- Every variable in the “business plan” is just a guess. No matter how beautifully formatted & designed your plans/decks are. Your market doesn’t care about your pretty little graphs with fake numbers.

- We have to launch our businesses, or projects, into a real market as a form of experimentation. So the only way this works is to launch, or re-launch, or reimagine, your company - in a way in which the company is LIVE.

- We do our best to isolate the variables of what is working and not working using split tests. We treat ourselves like a scientist trying to determine the answers to the two main questions that matter (value and growth).

- It’s almost as if The Value Hypothesis and the Growth Hypothesis are the two umbrellas. And under each of them there are about one hundred other smaller questions that need to be answered. We answer them using scientific tests, to a real market.

Zappos Case Study

- They launched almost immediately without worry of product lines, options, colors, returns, etc.

- This allowed them to start the process of validated learned. If they had just relied on normal learning (secondary research), they wouldn’t have known what the priorities actually were, in a real market.

- Once launched, it illuminates what’s on fire! This becomes the next thing they put their focus on. Never once making an ego-based assumption about what they should work or when.

- They were bought by Amazon and became very rich. The founder went on to create one of the greatest startup communities in the world, giving back to the next generation, by teaching this system.

- This means you have no excuse to go faster, with smaller steps, immediately.

Your First Experiment Is A Product

- Don’t overthink the words experiment, test, and science. We don’t want you running surveys and focus groups. We want you launching, or re-launching whatever the next iteration is, as soon as plausible.

- A real product, in a real market, is real science. Everything else is misleading.

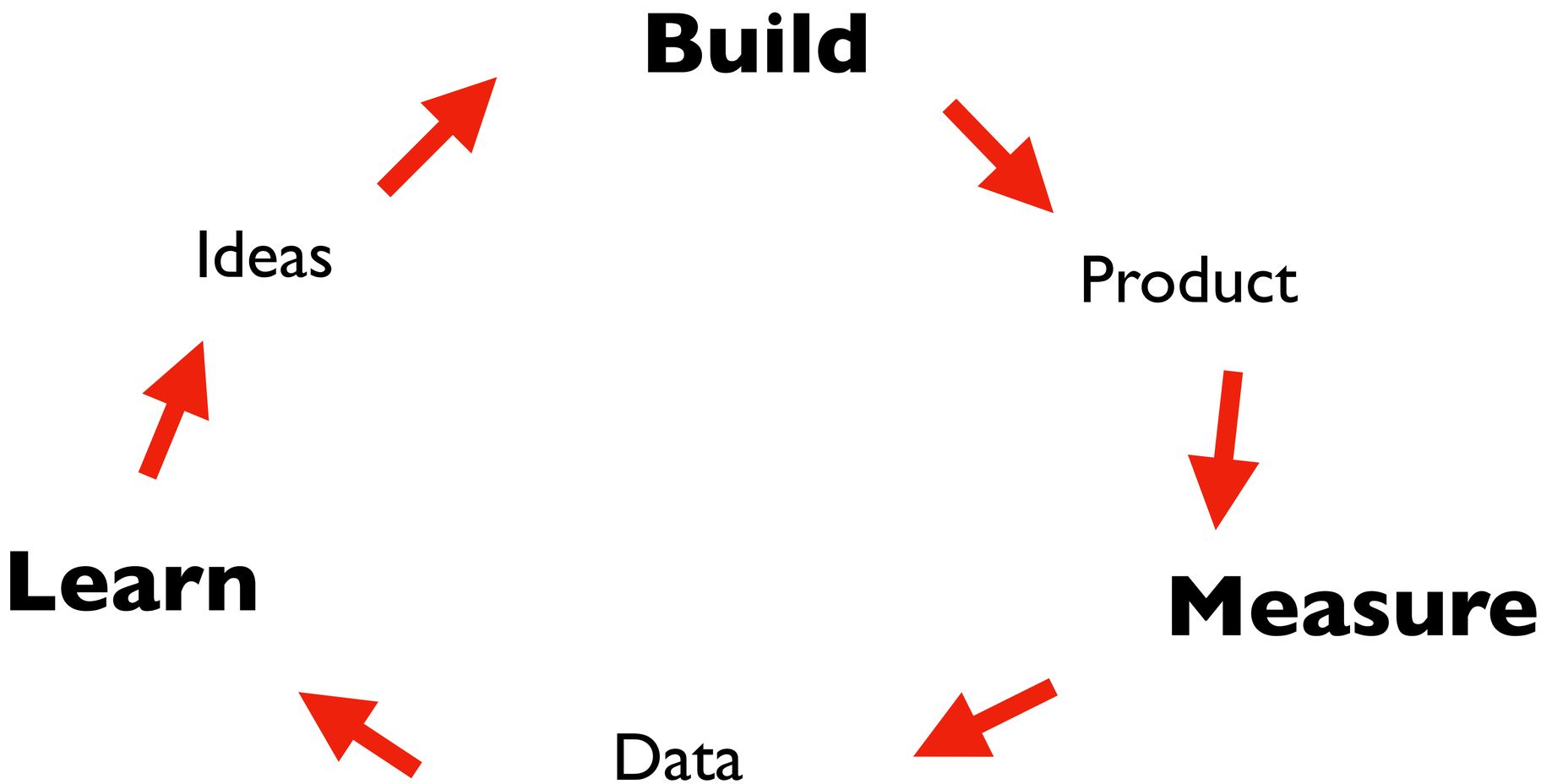
- It allows us to be surprised. And then combat that surprise accordingly, in real-time.

Groupon Case Study

Groupon wasn't originally meant to be about commerce at all. The founder, Andrew Mason, intended his company to become a "collective activism platform" called The Point. The story from his mouth: "We took a WordPress Blog and we skinned it to say Groupon and then every day we would do a new post. It was totally ghetto. We would sell T-shirts on the first version of Groupon. We'd say in the write up, "This T-shirt will come in the color red, size large If you want a different color or size, email that to us." We didn't have a form to add that stuff. It was just so cobbled together. It was enough to prove the concept and show that it was something that people really liked. The actual coupon generation that we were doing was all FileMaker. We would run a script that would email the coupon PDF to people. It got to the point where we'd sell 500 sushi coupons in a day, and we'd send 500 PDF's to people with Apple Mail at the same time. Really until July of the first year it was just a scrambling to grab the tiger by the tail. It was trying to catch up and reasonably piece together a product." - Andrew Mason

"Handmade PDF's, a pizza coupon, and a simple blog were enough to launch Groupon into record-breaking success; it was on pace to become the fastest company in history to achieve $1 Billion in sales. It is revolutionizing the way local businesses find new customers, offering special deals to consumers in more than 375 cities worldwide." E. Ries.

Build-Measure-Learn



The Minimally Viable Product

- Quick and dirty enough to launch soon.
- We use this to start the process of learning.
- It needs to be meaty enough to actually stand a shot at creating value in the eyes of the customer.
- It’s main goal is to get you live, sooner, with a real audience - so the market can help illuminate what to improve and in what order.

Leap Of Faith Assumptions

“The riskiest elements of a startup’s plan, the parts on which everything depends, are called leap-of-faith assumptions. They are called leaps of faith precisely because the success of the entire venture rests on them. If they are true, tremendous opportunity awaits. If they are false, the startup risks total failure.” - E. Ries

How To Validate Your Experiments

- Concierge MVP
- Split Testing
- Wizard Of Oz Testing

Fears Of MVP

- Couldn’t someone steal the idea?
- What about competitors?
- Quality concerns?
- Loss of morale?

Innovation Accounting

- Accounting is as important in startups as it is in business. But a business has a large enough sample size, in regards to revenue and other financial variables, for traditional accounting to work.
- So we must attempt to quantify the hard-to-quantify, in a way that allows us to establish baselines.
- Once baselines are established, we run experiments to improve the baseline metrics.
- Examples of “innovation accounting”…
    - Cost of customer acquisition
    - Repeat purchase rate
    - Lifetime value of a customer
    - Scale of 1-to-10, how much did the customer understand my business when they showed up at my door?
    - Percentage of orders that require manual customer service

Pivot Or Persevere

- Are the baseline metrics getting better? Great…persevere. Continue to build/measure/learn. FYI, they don't need to improve by much. Just minuscule amounts.

- If they're not getting better, it is a sign that something is fundamentally wrong with your leap of faith assumption and you must pivot.

- You're not overall changing the vision, as much as the model for how you're solving the problem.

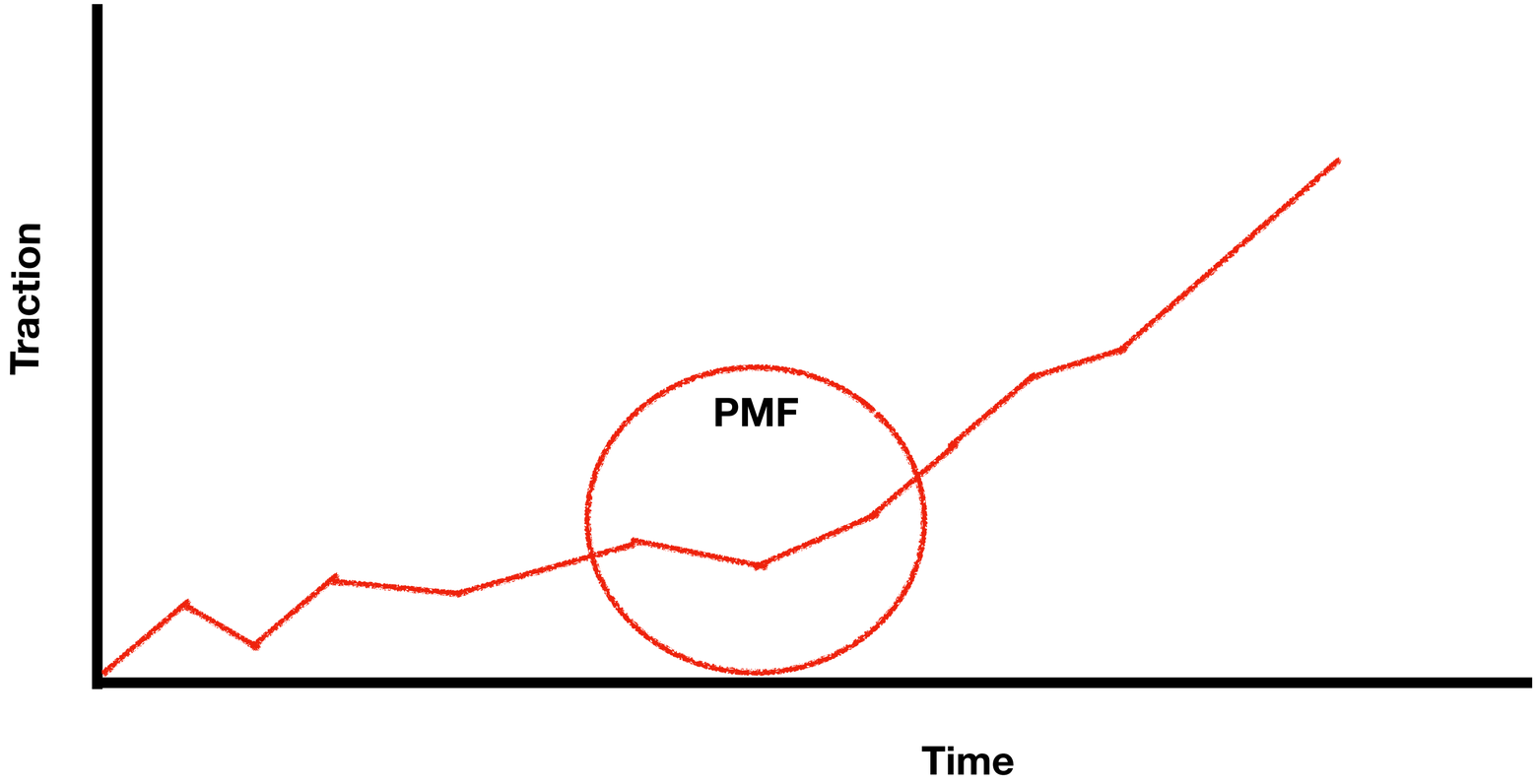
    - This would be like if BetaBlox went from charging equity to charging cash. Same product, same customers, same timeframe, same mission - different pricing model.

A Startup's Runway…

- Your runway is essentially the time you have left before your startup crashes and burns.
- Business schools like to break it down exclusively to money i.e. when you run out (how much is left in the bank divided by burn rate).
- But considering we have so little money, but yet we trek on, we think the definition has way more to do with how many pivots you have left in you!
- It's a weird way of saying, don't quit. Because if you build, measure, learn your little heart out…pivot once or twice when the data points command you to do so…it's only a matter of time before science points you towards a profitable company.
- So the way to extend your runway is to not only NOT QUIT, but it's also to break your "builds" into small actions so you can go through the build/measure/learn feedback loop more often. It's also to pivot when absolutely necessary so we don't waste valuable time beating our head against the pavement trying to get a flawed business model off the ground.
- Pivoting is a sharp sword with two sides: on one side an entrepreneur needs to be relentlessly stubborn or else they'll give up to early. Even a perfect startup is going to be hard to get off the ground without being stubborn. On the other side, if they're too stubborn they won't admit when it's time to make the big and scary changes required to get the startup off the ground.

Product/Market Fit

- When stuff finally starts to work. When customers are provably resonating with your offering. When you've answered the value and growth hypothesis.



New Model Pains

“In my years teaching this system, I have noticed this pattern every time: switching to validated learning feels worse before it feels better. That’s the case because the problems caused by the old system tend to be intangible, whereas the problems of the new system are all too tangible.” E. Ries