



Lean Startup Core Concepts Overview

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About Me

- Grew up in the Middle East
- Studied in the UK and the US
- Graduated in 2000
- Founded a couple of technology startups
 - Learned everything one should NOT be doing in the first one
 - Thankfully learned from my mistakes in the second one
- Got acquired by a “Large” Fortune 100 company
- Moved “To” Pakistan end of 2007
- Got into “start up mode” again 2012

70% of Startups Fail!

Why?

Hmmm..

- Because startups don't build what the customers **REALLY** want.
- More startups fails from a **lack of customers** rather than from a failure of product development

So what can one do?

- Startup Goal: Figure out the right thing to build – the thing that customers want and will pay for – as quickly as possible.
- If you build something that nobody wants, then it does not matter if you make it on time or in budget
- Lean Methodology is designed to help navigate the uncertainty and help startups move in the right direction quickly.

Lean Methodology

The Lean Startup methodology is a three-layered model made up of the **vision**, the **strategy** and the actual **product**.

It is also two-phased.

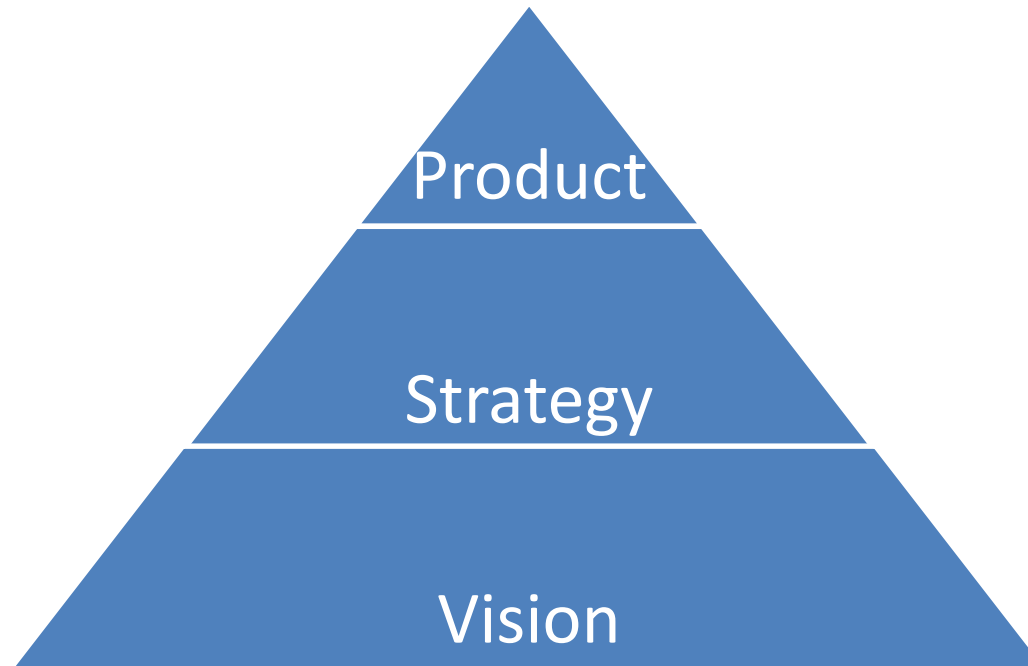
1. The first phase is focused on validated learning and how to create the best value for the consumers of the target market as well as how to best grow.
2. Only once this is achieved – a state that is called product-market fit, including a working engine of growth – does the actual growth phase start.

Lean Methodology favors

- experimentation over elaborate planning,
- customer feedback over intuition
- iterative design over traditional “big design up front” development

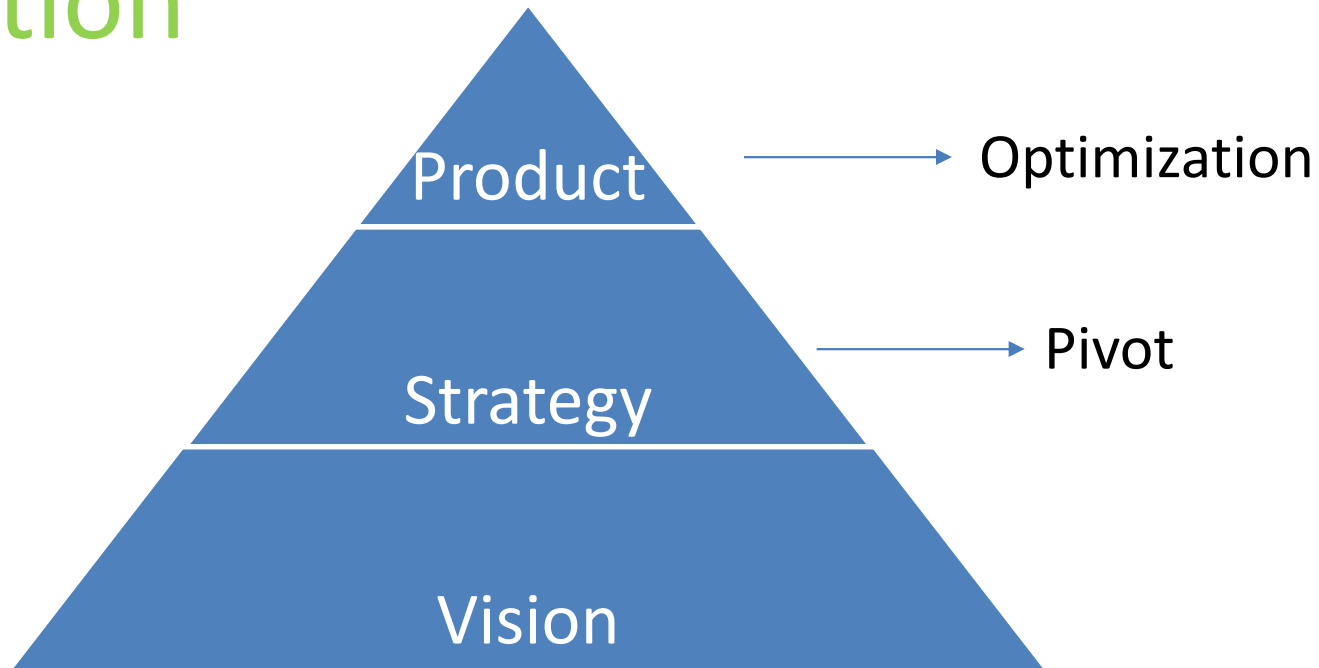
Objective: Find this product market fit and make a startup’s cash flow positive and sustainable before it runs out of money

Startup Pyramid



- The destination as well as the starting point is the startup's own vision
- To achieve the vision, you need a strategy. This includes a business model, a product roadmap, competitive and ecosystem viewpoints and customer identification.
- Product is the end result of strategy

Evolution



- Tune the engine – Your product should constantly change through the process of optimization
- Sometimes your strategy may also change – Pivot
- Note that the overarching vision should rarely change

Experimentation with Validated Learning

Core process for achieving the vision is through **Validated Learning**

“Validated Learning” is the process of demonstrating empirically that a team has discovered valuable truths about a startup’s present and future business prospects.

- Every product, every feature, every campaign should be an experiment designed to achieve validated learning.
- Anything you are doing that is not necessary for learning is a waste and should be eliminated

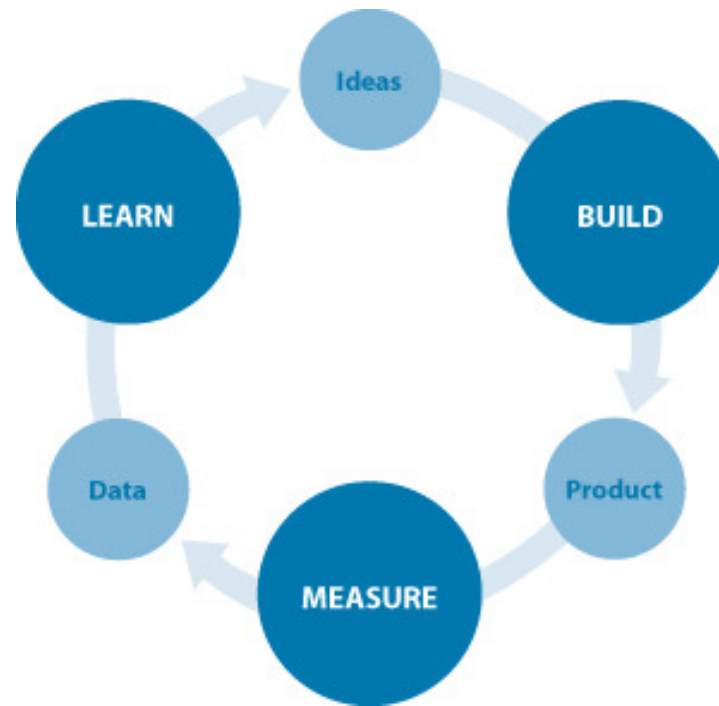
Hypothesis

To experiment and gain validated learning, you need to have a clear hypothesis that makes predictions about what is supposed to happen, to test against.

- **Value hypothesis** - tests whether a product or service really delivers to customers once they are using it.
- **Growth hypothesis** - tests how new customers will discover a product or service.

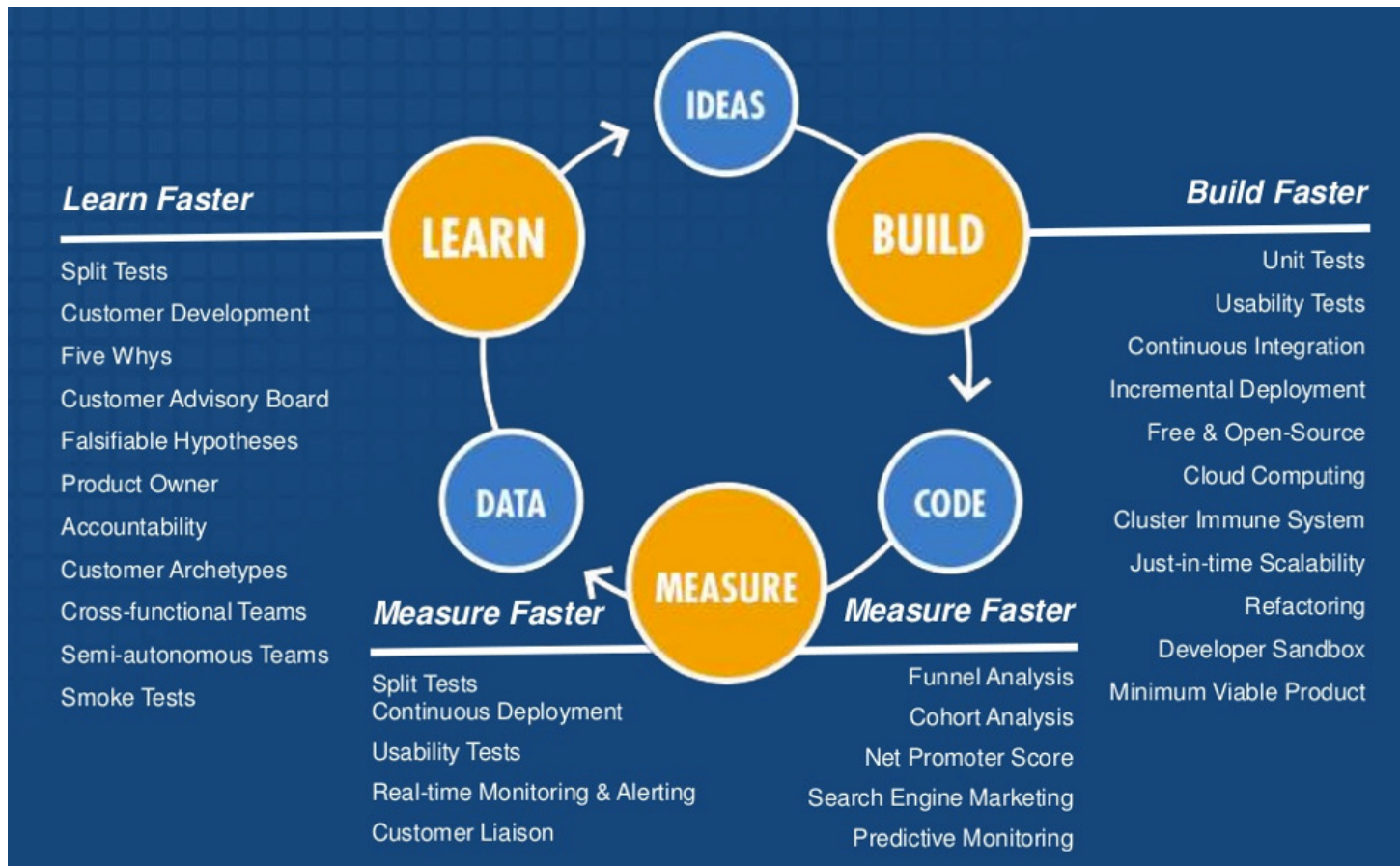
Startup experimentation is guided by the startup's vision, as the goal is to discover how to build a sustainable business around that vision.

Build – Measure – Learn Feedback Loop



- The core process of Lean Startup. This loop is based on concrete and empirical steps. The focus is on minimizing total time through the loop.

Build-Measure-Learn Faster...



Minimum Viable Product

- A technique to start the learning process as quickly as possible. The fastest way to get through the loop with minimum amount of effort.
- Complexity varies depending on the hypothesis and requires judgment.
- Unlike a prototype or concept test, an MVP is designed not just to answer product design or technical questions. Its goal is to test fundamental business hypothesis.

Minimum Viable Product

Q: What features should go into your MVP?

A: The feature critical for your MVP should be the one that tests your Riskiest Assumption - which is the assumption that, if invalidated, will break your whole business model and you have to start over.

Innovation Accounting

- Three “Learning” Milestones
 1. Establish real data on where the company is right now (using a MVP)
 2. Tuning the engine - Devise experiments to learn how to move the real numbers closer to the ideal reflected in the plan (may take many attempts)
 3. See if the company is making good progress toward the ideal → pivot or persevere

Innovation Accounting

Examples of what you can be measuring:

- **Acquisition** – “How do users find you?”
- **Activation** – “Do users have a great first experience?”
- **Retention** – “Do users come back?”
- **Revenue** – “How do you make money?”
- **Referrals** – “Do users tell others?”

Pivot or Persevere?

- The most difficult question any entrepreneur faces, upon completing the Build-Measure-Learn loop
- Change of strategy based on validate learning – a special kind of change designed to test a new fundamental hypothesis about the product, business model, and engine of growth
- Requires human judgment

Summary: What do lean startups do differently

Lean	Traditional
Strategy Business Model Hypothesis-driven	Business Plan Implementation-driven
New-Product Process Customer Development Get out of the office and test hypotheses	Product Management Prepare offering for market following a linear, step-by-step plan
Engineering Agile Development Build the product iteratively and incrementally	Agile or Waterfall Development Build the product iteratively, or fully specify the product before building it
Organization Customer and Agile Development Teams Hire for learning, nimbleness, and speed	Departments by Function Hire for experience and ability to execute
Financial Reporting Metrics That Matter Customer acquisition cost, lifetime customer value, churn, viralness	Accounting Income statement, balance sheet, cash flow statement
Failure Expected Fix by iterating on ideas and pivoting away from ones that don't work	Exception Fix by firing executives
Speed Rapid Operates on good-enough data	Measured Operates on complete data

Remember

Success is predicated on too many factors for one methodology to guarantee that any single start-up will be a winner.

However:

Using lean methods across a portfolio of start-ups will result in fewer failures than using traditional methods.

5 Lessons Learned

- Don't ask what people would pay for. They lie.
- Nothing beats getting a customer to actually pay for something
- You have to learn the customer's language.
- A customer's stating a problem is more valuable than a customer agreeing with a problem you present.
- Be precise in your Hypotheses.

Disclaimer: The alternate view

- *The Lean Startup model encourages features vs. whole products*
- *It prematurely burns out our team*
- *These are hard products to love*
- *It devalues architecture*
- *It leads to potentially the wrong discussion with your investors*