

Premise – as a society, we have a proven set of techniques for managing big companies and we know the practices for building physical products. But when it comes to startups and innovation, we are still shooting in the dark. This book attempts to put entrepreneurship and innovation on a rigorous footing by providing a set of practices for helping entrepreneurs increase their odds of building a successful startup.

The book is divided into three parts:

- **Vision** – makes the case for a new discipline of entrepreneurial management
- **Steer** – dives into the Lean Startup method in more detail, showing one major turn through the core Build-Measure-Learn feedback loop
- **Accelerate** – explores techniques that enable Lean Startups to speed through the Build-Measure-Learn feedback loop as quickly as possible, even as they scale.

The roots of the Lean Startup

The Lean Startup takes its name from the lean manufacturing revolution developed at Toyota. Lean thinking is radically altering the way supply chains and production systems are run. Among its tenets are drawing on the knowledge and creativity of individual workers, the shrinking of batch sizes, just-in-time production and inventory control, and an acceleration of cycle times. It taught the world the difference between value creating activities and waste and showed how to build quality into products from the inside out.

VISION

a) Start

The tremendous success of general management over the last century has provided unprecedented material abundance, but those management principles are ill suited to handle the chaos and uncertainty that startups must face.

The Lean Startup is designed to teach you how to drive a startup. Instead of making complex plans that are based on a lot of assumptions, you can make constant adjustments with a steering wheel called the Build-Measure-Learn feedback loop. Through this process of steering, you will be able to tell when and if it's time to make a sharp turn called a pivot or whether we should persevere along our current path. Once we have an engine that is revved up, the Lean Startup offers methods to scale and grow the business with maximum acceleration.

b) Define

A startup is a human institution designed to create a new product or service under conditions of extreme uncertainty. The most important part of this definition is what it omits. It says nothing about the size of the company, the industry, or the sector of the economy. Anyone who is creating a new product or service under conditions of extreme uncertainty is an entrepreneur whether he or she knows it or not and whether working in a government agency, a venture backed company, a non-profit, or a decidedly for profit company with financial investors.

It is important that the word innovation be understood broadly. Startups use many kinds of innovation: novel scientific discoveries, repurposing of existing technologies for a new use, devising a new business model that unlocks value that was hidden, or simply bringing a product or service to a new location or a previously underserved set of customers.

c) Learn

Lean defines value as providing benefit to the customer; anything else is waste. In a startup, who the customer is and what the customer might value are unknown, part of the very uncertainty that is an essential part of the definition of a startup. Hence, learning is the essential unit of progress for startups and waste is all effort not absolutely necessary for learning what customers want, and can be eliminated.

Validated learning is the process of demonstrating empirically that a team has discovered valuable truths about a startups present and future business prospects. It is more concrete, more accurate, and faster than market forecasting or classical business planning. It is the principal antidote to the lethal problem of achieving failure: successfully executing a plan that leads to nowhere.

d) Experiment

The Lean Startup methodology reconceives a startup's efforts as experiments that test its strategy to see which parts are brilliant and which are crazy. A true experiment follows the scientific method. It begins with a clear hypothesis that makes predictions about what is supposed to happen. It then tests those predictions empirically. Just as scientific experimentation is informed by theory, startup experimentation is guided by the startup's vision. The goals of every startup is to discover how to build a sustainable business around that vision.

In the Lean Startup model, an experiment is more than just a theoretical enquiry; it is also the first product. If this or any other experiment is successful, it allows the manager to get started with his or her campaign.

The five principles of the Lean Startup, which inform all three parts of the book, are:

1. Entrepreneurs are everywhere – You don't have to work in a garage to be a startup. The concept of entrepreneurship includes anyone who works within a startup, i.e. a human institution designed to create new products and services under conditions of extreme uncertainty.
2. Entrepreneurship is management – A startup is an institution, not just a product, and so it requires a new kind of management specifically geared to its context of extreme uncertainty
3. Validated learning – Startups exist not just to make stuff, make money, or even serve customers. They exist to learn how to build a sustainable business. This learning can be validated scientifically by running frequent experiments that allow entrepreneurs to test each element of their vision
4. Build-Measure-Learn – The fundamental activity of a startup is to turn ideas into products, measure how customers respond, and then learn whether to pivot or persevere. All successful startup processes should be geared to accelerate the feedback loop.
5. Innovation accounting – improve entrepreneurial outcomes and hold innovators accountable, we need to focus on: how to measure progress, how to set up milestones, and how to prioritise work. This requires a new type of accounting designed for startups – and the people who hold them accountable.

STEER

At its heart a startup is a catalyst that transforms ideas into products. As customers interact with those products, they generate feedback and data. The feedback is both qualitative (such as what they like and don't like) and quantitative (such as how many people use it and find it valuable). The products a startup builds are really experiments; the learnings about how to build a sustainable business is the outcome of those experiments. For startups, that information is very important, because it can influence and shape the next set of ideas.

Many people have professional training that emphasises one element of this feedback loop. Plenty on entrepreneurs focus their energies on the individual parts. The truth is that none of the activities by themselves is of paramount importance. Instead, we need to focus energies on minimising the total time through this feedback loop

a) Leap

Every business plan begins with a set of assumptions. It lays out a strategy that takes those assumptions as a given and proceeds to show how to achieve the company's vision. Because the assumptions haven't been proven true (they are assumptions, after all) and in fact are often erroneous, the goal of a startup's early efforts should be to test them as quickly as possible.

The first challenge of an entrepreneur is to build an organisation that can test these assumptions systematically. The second challenge, as in all entrepreneurial situations, is to perform that rigorous testing without losing sight of the company's overall vision.

The two most important assumptions are the *value hypothesis* and the *growth hypothesis*. The value hypothesis test whether a product or service really delivers value to customers once they are using it.

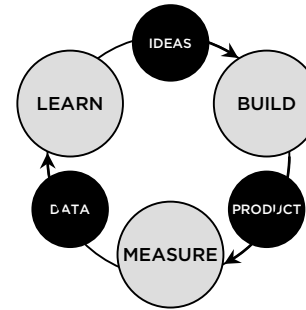
The growth hypotheses is explained in more details under accelerate, on the right of this summary.

These (and others) are the leap of faith assumptions because the entire success of the entire venture rest on them. If they are true, tremendous opportunity awaits. If they are false, the startup risks total failure.

b) Test

Minimum Viable Product helps entrepreneurs start the process of learning, as quickly as possible. It is not necessarily the smallest product imaginable, though; it is simply the fastest way to get through the Build-Measure-Learn feedback loop with the minimum amount of effort. The goal of the MVP is to begin the process of learning, not to end it. Its goal is to test the fundamental business hypotheses.

BUILD MEASURE LEARN - FEEDBACK LOOP



As you consider building your own MVPs, let this simple rule suffice: remove any feature, process, or effort that does not contribute directly to the learning you seek.

c) Measure

A startup's job is to (1) rigorously measure where it is right now, confronting the hard truths that assessment reveals, and then (2) device experiments to learn how to move the real numbers closer to the ideal (i.e. the assumptions) reflected in the business plan.

It begins by turning the leap of faith assumptions into a quantitative financial model. For example, the rate of growth can be modelled by having a hypothesis on: the profitability of each customer, the cost of acquiring a new customer and the repeat purchase rate of existing customers. **Needs work**

Innovation accounting enables startups to prove objectively that they are learning how to grow a sustainable business, it also leads to faster pivots.

d) Pivot (or persevere)

Everything that has been discussed so far is a prelude to a seemingly simple question: are we making sufficient progress to believe that our original strategic hypothesis is correct, or do we need to make a major change? That change is called a pivot; a structured course correction designed to test a new fundamental about the product, strategy, and engine of growth.

Startup productivity is not about cranking out more widgets or features. It is about aligning our efforts with a business and product that are working to create value and drive growth. In other words, successful pivots put us on a path to growing a sustainable business.

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Happy reading,

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ACCELERATE

The critical first question for any lean transformation is: which activities create value and which are a form of waste. As Peter Drucker said, "There is surely nothing quite so useless as doing something with great efficiency that should not be done at all."

a) Batch

In Lean Manufacturing, the small-batch approach produces a finished product every few seconds, whereas the large-batch approach must deliver all the products at once.

Just as Lean Manufacturing has pursued a just-in-time approach to building products, reducing the need for in-process inventory, Lean Startups practice just-in-time scalability, conducting product experiments without making massive upfront investments in planning and design.

The biggest advantage of small batch approach is that quality problems can be identified much sooner.

Whereas in Lean Manufacturing small-batches make factories more efficient. In contrast, in the Lean Startup the goal is to – as quickly as possible – learn how to build a sustainable business.

New technologies are allowing entrepreneurs of the same quality.

b) Grow

Sustainable growth is characterised by one simple rule, i.e. "New customers come from the actions of past customers."

There are four primary ways (past) customers drive sustainable growth:

1. Word of mouth. Embedded in most products is a natural level of growth that is caused by a satisfied enthusiasm for the product
2. As a side effect of product usage. Fashion or status, such as luxury goods, drive awareness of themselves when being used
3. Through funded advertising. Most business employ advertising to entice new customers to use their products
4. Through repeat purchase or use. Some, products are designed to be used repeatedly either through a subscription plan or through voluntary repurchases.

These sources of growth power feedback loops termed engines of growth: Paid, Viral or Sticky. Each is like a combustion engine, turning over and over. The faster the loop turns the faster the company will grow. Each engine has its own set of metrics that determine how fast a company can grow when using it.

A startup can evaluate whether it is getting closer to product / market fit as it tunes its engine by evaluating each trip through the Build-Measure-Learn loop using innovation accounting, i.e. is the direction and degree of progress relative to the key metrics relevant for each type of engine improving (at a fast enough rate to validate your assumptions) or not.

c) Adapt

To accelerate, Lean Startups need a process that provides a natural feedback loop. When you are going too fast, you cause more problems. Adaptive processes force you to slow down and invest in the type of problems that are currently wasting time. As these preventive efforts pay off, you naturally speed up again.

At the root of every simple technical problem is a human problem. The Five Whys provides an opportunity to identify what the human problem might be.

Startups should go through the Five Whys whenever they encounter any kind of failure, including technical faults, failures to achieve business results, or unexpected changes in customer behaviour.

Coupled with working in small batches, it provides the foundation a company needs to respond quickly to problems as they appear, without overinvesting or overengineering.

d) Innovate

To nurture disruptive innovation:

1. Startup teams need to be autonomous to develop and market new products within their limited mandate
2. They need to be cross functional, i.e. have full-time representation of every functional department in the company that will involved in the creation or early launch of the product
3. Entrepreneurs need a personal (not necessarily) stake in the outcome of their creations.