Lean startup @ Startup2Startup

Intro

- **START HERE AND READ THE MINDMAP IN CLOCKWISE ORDER**
- video at
- slides at
- Customer development comes from Steve Blank's experience in doing 8 startups — and failing ;-)
- started writing down war stories
  - noticed patterns about he hadn't realized before
  - successful entrepreneurs knew these instinctually, but nothing was really written down
- presented by
  - Steve Blank
  - Eric Ries

more startups fail from lack of customers than from failure of product development

- 90% of fail because of lack of revenue
- defining companies into three categories
  - 1/3 = pure customer risk — e.g. biotech companies, cure for cancer doesn't have any customer risk
  - 1/3 = technology risk — e.g. new semiconductor architectures have both customer and tech risks
  - 1/3 = have both of them
- conundrum: processes for R&D, but none for the business side
  - where were the processes to manage the part that was failing in the companies — amazing that this wasn't addresses
  - inexpensive fix: focus on customers & markets from day 1

customer development

- no magic — doesn't guarantee success
- **build companies that fail fast, let's you iterate your way to success**
- R&D processes used to run the whole company
  - alpha, beta, launch date dictated all other milestones, sales projections etc
  - the process is designed to get the product out of the door
  - it didn't help at all about the stuff outside our building = the customer
  - FAIL
- a parallel process to test and validate all fundamental hypotheses about the customer
  - 4 steps
    - **customer discovery** — lean, iterative part
    - **customer validation** — lean, iterative part
    - **customer creation**
    - **company building**
  - measure checkpoints — gate progress from step to the following
  - tied to customer understanding, not to R&D process
- emphasis on learning & discovery before execution
  - entrepreneurs have crazy passion for execution
    - we confuse passion with customer facts
    - **understand that you are executing hypotheses = GUESSES**
    - move 10% of your passion into learning about customers

Step 1: customer discovery

- Steve's war story
  - not really written a business plan, just 12 slide powerpoint decks
    - which even got blessed by god (VC money from John Doerr)
    - then just changed the powerpoint deck and changed the last slide from Round of 10 million dolalrs to "can I please get an order"?
  - instead of that, put away the slide deck
    - **document your assumptions**
    - **get out of the building and really start talking to customers and other stakeholders**
- stop pitching and start listening
  - what are your customers top problems? — how much are they willing to pay?
  - does the product solve the problem?
  - draw a day in the life of a customer
    - before & after your product
    - really tell me about your customer — what do they eat, read, why, what's in their office, what other software, what are they using it for
    - a surveymonkey questionnaire doesn't answer this
    - deep understanding — **if you can't do this, you are wasting your time in customer development**
  - draw the org chart
    - influences and decision makers exist also in consumer markets — e.g. buying a car — your wife, kids etc
- this is not an inside of the building process
  - get out and start learning
  - "if you feel you are in control, you are not going fast enough" — Mario Andretti — **stop sitting in the conference room and arguing about features**
  - startups exist because founder's have a vision
    - executing with passion to that vision
    - **customer discovery finds if there are customers that actually match that vision** — only if there aren't, then you change features & visions

step 2: customer validation

- charge immediately for the minimum viable product
  - if they don't buy it, you get immediate and real feedback
  - if they do buy, you solve a burning problem regardless of your bugs
  - only earlyvangelist are crazy enough to buy
- don't start scaling yet
  - warstory about how VP of Sales get sacked when trying to scale up too early
  - you don't yet have a repeatable & scaleable sales process
- **find out if you have a viable business model or not**
- exit criteria
  - proven sales process
  - understandable sales cycle/model
  - real orders validating this
  - also consider liquidity events
  - do the financials make sense

market type

- different rules for different markets — eskimos have 11 words for snow, but Silicon Valley have only 1 word for startup
- three types
  - existing market — "offering a faster & better product"
  - resegmented market — what's your niche?
  - new market
    - forming a new market from scratch
    - classic hockeystick market
- the type of market changes everything
  - sales, marketing, business model
  - get a market type wrong, and you might be executing superbly, but doing the wrong things
- warstory: handspring vs. Palm
  - same guys built the same device in 1995 and in 2000
  - new market vs. existing market — completely different market but same device
  - need radically different strategies

what does engineering really do?

- waterfall process
  - Problem: known
  - Solution: known
  - "executing beautifully to failure"
  - no process to ask if this plan is any good
  - startups never are in a situation where they know the problem and the solution
  - unit of progress: advance to next stage
- agile
  - "product owner" / in-house customer — Problem: Known
  - incremental development to emphasize flexibility — Solution: unknown
    - as we learn more, change plans = increase % of building something useful
  - the process expects that the product owner knows — it doesn't make sense to ask what the problem really is
  - unit of progress: line of working code
- use here
  - **problem: Unknown** — all you have are delusions that the customer might have — you have nobody that can give authorative answers on what customer's will pay for
  - **Solution: Unknown**
- **lean startup**
  - executing the iterative process of customer development — instead have a Problem team
  - come up with experiments to prove if what we are trying to do, really does that for the customer — also a Solution team
  - departmental boundaries need to be abolished
  - **unit of progress: validated learning of customers (€€€)**
    - learning inside the heads of your employees
    - anything that promotes that learning is progress
  - combination of agile development and customer development
- IMVU warstory
  - high switching costs from IM network to another — network powers in effect
  - users wont need a new buddy list etc — build a IM addon for 3D avatars
  - there are no high switching costs etc — the whiteboard exercise was completely false
  - released early & fast — personally did all IM compatibility code etc
  - had all unit test, pair programming etc
  - we did all that and all those lines of working code, and we still had throw all that code away
  - the goal is to minimize waste — **the biggest source of waste in a startup is building something the customers don't want**
- **core loops**
  - **ideas - code - data**
  - **build - measure - learn**
  - don't sub-optimize any one part — "faster to implement without measurements, but that would slow down the whole loop"
  - reduce the total time thru the whole loop
  - if you iterate just on the whiteboard, it is really fast, but you are not learning anything from the customers

how to take it into action

- startups are founded on passion (faith!) — build a fact-based culture for learning
- what are your fundamental drivers of growth — decide on business model early
- build - measure - learn — create a decision loop
- draw your business, customer acquisition, channel models — write your hypothesis down
- before you scale up — prove it in the micro-scale
- but not without thinking! — execute relentlessly
- team needs to true believers not employees
- focus on the few things that matter
- don't confuse hypotheses with facts
- don't just read the book and call the customer once — continuous customer contact
- continuous stream of data
- your competitor's don't have time to focus on you — only you can put your company out of business
- 2-3 first years are about your execution