Basic Lean Startup Principles

My name is Dr. Constantina Katsari- Muston and I would like to talk to you about the basic lean start up principles that you will be using in this course. Businesses, established businesses are using traditional management methods to grow and become profitable.

In order to build a product, they're using a very well know 'Waterfall Business Model', which looks like that. First of all they set the requirements for the product, then they go ahead to design it, they implement the design in another phase, they verify and they make sure they have maintenance methods in place. As you can see they go from one stage... from one phase into another, without actually having the possibility to go back and redesign.

However, this kind of process has a lot of problems especially for start ups. The first problem is that it is product-centric... with the product right in the centre of the model. It wants to make it perfect perfect. It doesn't take into consideration the customer or the behavior of the customer, which is relevant to business building not to product building. Because of this reason, some companies, especially corporations, are actually building the 'titanic', the massive, perfect product that they think they would launch in one go. And then it will sink, because probably the customers are not going to buy. But, of course, they can do that because they have the money to spend. You don't! You're start ups.

The product they build, usually, is not based on facts. It's based on assumptions… on guess work. They are guessing who the customers are going to be and what the customers may like. And then, they are going ahead and designing the product that fits the marginal needs of the imaginary customer. When they're at it, they're planning for every occurrence. The plans are very elaborate... the plans are absolutely perfect and so is the product. At least they are perfect in their minds. But in the process they're losing a lot of time and they're losing a lot of money. It has been known that some of the biggest corporations are spending millions on specific products.

So, this is what businesses do but what about the start-ups? What is the job of a start up? And it would be useful if you actually stopped the recording and you started thinking or you started discussing what do you think the job of a start up is.

Actually, the job of the start up is to stop being a start up. A start up is looking forward to become a business, a proper company and an established company that's going to be profitable, pay salaries, create growth, create value for its customers.

According to Professor Steve Blank, as you can see here, "a start up is a company formed to search for a scaleable and repeatable business model". A model is scalable

when it can have thousands or even millions of customers without actually seeking for a lot more resources. And a model, seemingly, is repeatable when the customers keep coming without you actually having to go out to hunt them down. These models are the successful models. This is when you actually create a business and you don't just create a job for yourself.

The student of Steve Blank, Eric Ries, created this build-measure-loop to describe the proper method for building a startup, what he called 'The Lead Startup Method'. So you start from an idea, a business idea that you assume is going to be successful. In order to prove this assumption, you build a small product. It doesn't have to be the finished product. It definitely should not be the perfect product. So, you build something that you bring in front of the customers and you check out their reaction. You measure their reactions, their behavior. You use this data to learn more about what the customers want, to get feedback from them. You learn from this feedback and then you go back to the original idea and you change it according to the feedback that you received. And this is the built, measure, learn loop that you will be following in this course.

Let me just take you through a very few lean start up principles that you should have imprinted in your mind, while you're working on your start up. First of all, I need you to get your facts straight. I don't want you to come back to me or to your mentors with assumptions. Make sure you have facts in your hands, you have the truth in your hands. Otherwise your business will be a construct or your own imagination and its success will stay also in your own imagination. You obviously have a list of assumptions in your mind. For example, you may think that your customers maybe middle aged women with 3 kids or you may think that you're going to price your product at £9,99 a month. Make sure you acknowledge that these are assumptions and then test them. Test whether they're true or false, all of them. That is going to be your home work, while you're building your business. To test all of your initial assumptions.

In order to make corrections to your product or to your business model, you need to use the feedback you're going to get from your customers. Just listen very, very carefully what your customers have to say. Take this feedback and apply it. Don’t just leave it in a drawer.

But you need to be careful. You can change aspect of the business but you can't alter the vision. For example, your vision may be to provide housing to the working classes in Nigeria. Now the way you're going to go around in order to achieve your target may change but the vision itself can't change, because then it will be like you're abandoning the current business and you're starting a completely new one, which is not a bad thing, its just its another business.

Above all, I want you to remember, don't sell what you can make, make what you can sell. For example, you may be a shoe maker. So, your gut feeling is telling you to create shoes, to make shoes. But making shoes is not a business; it is a job. You need

to build a business around this, you need to build a business around what the customers really want, not around your own skills. You can find people with your skills to do the job, but you can't find people to build the business for you. This is something that you will have to make.

And the first phase that you should go through is the one of customer discovery. How are you going to find who your customer is? Who is going to buy your product? What is their profile? First of all you'll need to state your hypothesis, your assumption. Write on a piece of paper, I think my customer is a third year student of the university, for example. Then you're trying to find the problem of this third years student. Next you are trying to figure out whether the problem you have in your mind is the problem that the third year student has. And the next step is providing a solution for the problem of the student and testing whether the student is willing to buy your solution or not.

After you go through this process, you'll be able to validate your initial assumption, your initial hypothesis. You will be able to prove whether it actually stands as it is or you need to change the problem a little bit, or you need to change the solution a little bit.

In any case as you're doing that, you'll have to go through the learning loop Eric Ries described. The learning loop is the foundation of the Lead Start up Method it is all about getting the information you need in order to build the business. The fact is information at this stage is more important than cash or awards, or the rest. I know a lot of start ups that appeared everywhere, they were promoting their startup continuously, they appeared in the BBC or in Times, or in other singular journals or traditional media. 6 months later they disappeared off the face of the Earth, because they haven't managed to identify a specific problem and provide a viable solution. Other start-ups are going for the awards, they're scooping awards for a year or so and then again they disappear because they focus too much on getting the awards and not actually building the business itself. And I assume that you'd not like to be in this position. While you're going through this loop form the ideas to building a product, to measuring the data, to learning, to changing the original idea. And you should make certain to do it as fast as possible.

Every test should last no more than a week. During this week, get the feedback that you need and change your initial assumptions, so that you can go the next test and the test after that and the test after that. Above all, you should test your riskiest assumptions first. When you make your list of assumptions, and you write them down on a piece of paper, make sure you put first the assumptions that are more risky. For example, for you the riskiest assumptions may be that you may not find any customers to buy your product. Make sure you test that first. For another start-up it may be that a price of 100 pounds is too much risk at first.

What is going to help you in the learning process is the creation of a 'Minimum Viable Product'. That would be the creation of a little prototype that is going to hep you test the reactions of your customers. It will definitely help you avoid building things that nobody wants. It will also minimize the time and effort you put into the project. Instead of just creating the 'titanic', this very large and perfect product, just create something very small, something people can use and something that definitely solves their problem. Then you can make it perfect as the process evolves, the process of business building. In fact you can create an early prototype within 1- 2 weeks. I do know start ups that took 9 months to create a Minimum Viable Product and then they figured out that they lost 9 months, because they had to go back and change it from scratch, as they have not identified the right problem, and certainly they've not provided the right solution.

The product is something that you should create with the help of your customers. It is not something that you have in your head. It's something that it is in the head of the customers instead. So you start with one or two features only and you test each and every feature, which solves a specific problem for the customer... then you go to the second feature, third and so forth. How do they react to these features individually? Don't add features for the sake of adding features, because that will make the product very complicated and very difficult to use. And don't forget, in the beginning to have a concierge service, if you're building a software platform. What does that mean? It means that you create the front end, what the customer sees but you do everything in the back end manually. This way you learn how the process goes and what you should do, so that the customers are happy. Only after you finalize this process, then you automate it.

What you want to achieve is Product Market Fit. A Product Market Fit is when the start up finds a wide spread set of customers that resonate with his product. These customers may not be that many. When Groupon have found their Product Market Fit, they just had 20 customers. It was when they announced that they would be giving out one free pizza for every pizza that was bought. This is how they got their first customers. That was their Product Market fit. you will know when that happens, because you will not have any successes before that.

The model looks something like that, you have the customer discovery phase where you're trying to find problem/ solution fit. You're trying to find the problem and then adjust a solution in order to resolve it. Then you go to the next phase which is customer validation This is when your customers are actually paying you to buy the product or engaging in other ways with you. When you see adequate numbers behind your product, with a potential of referrals, that would make it a repeatable model, then what you have is a Product/ Market Fit. Before Product Market Fit it is the learning phase, this is when you're learning what your business is all about and how it should be constructed. The phase after that is the business phase, this is when you actually build the core of the business around customer relationships. You create your customers and you build your own company.

So a lot of start-ups come back to me with a lot excuses for not launching. I would like to just present in front of you, some of the excuses I have here, not all of them. For example, most start-ups I see are telling me… 'oh the product is not perfect yet'. The fact is the product is never perfect. It's good enough for the customers that had a problem and they want to solve it and you need to start with these customers. In fact, if the product is not perfect and the customer is still buying, then you have a very, very strong validation point.

Other start-ups are telling me, 'It needs more features'... no no it doesn't. The fact is you need one feature that solves one problem. Then maybe with that second feature, you will solve similar problems. Or a third feature is helping you go faster through the process. But the fact is, as I mentioned before, you need to test each feature separately in order to figure out what works and what doesn't. And the features should be the ones that facilitate the real customer, not the the customers of your imagination.

Some start ups are claiming, 'You have to build the back end'. I would prefer a concierge service. It is giving you a much better idea of how the customer is behaving and exactly what they want in these first phases of building a product. The back end should be automated at a later stage. It should definitely be automated because this is the way to become scaleable, to get a lot of customers without burdening your resources. But you can do that at a later phase.

'My product can't service thousands of customers or hundreds of thousands of customers'. As some people said, the fact is you need to service 1 customer at a time. In the beginning 1 or 2 customers is more than enough to get you going. Just talk to them, give them the most exceptional service that you can give, something that you would give to your best friend or to your relatives. And make sure they're satisfied. Then you can replicate this service to 2 customers, to 3 customers, to 4 customers, to 10 customers, to 100 customers. If you have thousands of customers from the beginning… well what can I say… this is a good problem to have. And it could be solved out quite easily.

There's some sort of fear that somebody will steal the idea. Startups saying they have this unique idea that's never been done before and somebody will go ahead and scoop it from them. To be absolutely truthful, I have very rarely heard of a new idea. In the space of a year I may hear 1, 2, maximum 3 new ideas that may make a difference. The rest of them are copies or variations of ideas that I have heard before. Now, even if we assume that you have an excellent idea, and you're afraid that somebody is going to steal it, then you have a problem. If somebody can copy it... easily... then it is not a very good idea, is it? If it has IP attached, then obviously you should not fully reveal it. You should keep the tactical aspects to yourself. Otherwise, business ideas can be replicated, unless you're able to innovate, and innovate continuously, within your start up.

The fact is, behind all of these excuses, there's one fear that is lurking, this is the fear failure. Startups are afraid that they're going to fail, that their dream will come crashing down, if they launch. And so they avoid it. They keep postponing it. Sometimes they keep postponing it for years. One start up that came to me, came and told me… 'ohh I had this idea for 10 years'. And he hasn't acted on it. Implementation is what counts, not ideas. Ideas come and go, they need to change, customers need to change, the economy keeps changing. If you sit on the idea for too long, you're going to miss the boat.

So I would like you to think very, very carefully... What is you excuse? Why haven't you launched yet? What is keeping you from building a start up? you can discuss it with your mentors, with yourself or with your peers and it would be a really useful step in the learning process of building a start up.