VISION

A startup must start with a vision, which leads to strategy, which leads to product

- **VISION** – this is your overall goal to create a world changing business
- **STRATEGY** – business model, product roadmap, positioning, customers, etc
- **PRODUCT** – your offering to the customer

STRATEGY

Break strategy down into 1 or 2 most important assumptions – Leap of Faith assumptions. They must be true for the basis of the business to succeed. The typical leap of faith assumptions are-

1. **VALUE HYPOTHESIS** – Will the customer have a significant desire to use the product?
2. **GROWTH HYPOTHESIS** – How do new customers discover the product? What growth engine will you use? (see Learn section)

- Go and see for yourself - What problems do customers have? Talk to them! Create a "Customer Archetype" to which daily decisions can be aligned
- Always test the riskiest assumption first.

PIVOT

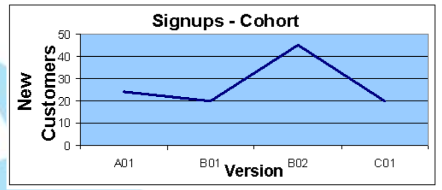
- Even after a company achieves initial success it must continue to pivot.
- Types of pivots
  - **ZOOM-IN PIVOT** – A single feature in a product becomes the whole product.
  - **ZOOM-OUT PIVOT** – The whole product becomes a single feature of a larger product
  - **CUSTOMER SEGMENT PIVOT** – The product solves a real problem for real customers but they are not the customers originally targeted.
  - **CUSTOMER NEED PIVOT** – As a result of deep customer knowledge it is clear that other related problems are more important than the original problem.
  - **BUSINESS ARCHITECTURE PIVOT** – A change from high margin, low volume (typically business to business sales – B2B), to low margin, high volume (typically consumer products) or any combination of the above.
  - **MONETISATION PIVOT** – A change in the way customers pay for the product. This can include a once off purchase, a subscription, "freemium", free with advertising only, etc.
  - **ENGINE OF GROWTH PIVOT** – A change between viral, sticky, or paid growth models.
  - **CHANNEL PIVOT** – A change in the way the product is delivered to the customer. For example consumer goods are sold in a grocery store, cars in a dealership, enterprise software by consulting firms, etc. The channel requirements often determine the price, features and competitive landscape of a product.

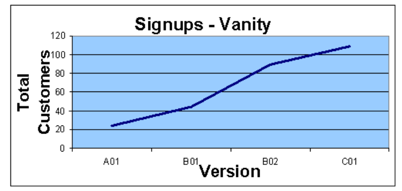
BUILD

- Figure out what we need to learn (hypothesis), then figure out the simplest product that will work to prove or disprove the hypothesis - a **MINIMUM VIABLE PRODUCT (MVP).**
  - A version of the product that enables a full turn of the build, measure, learn cycle with minimum effort and time.
  - Lacks many features (that may prove essential later on with mainstream customers).
  - Will be put in front of real customers and feedback measured.
  - Can range in complexity – can simply be a "smoke test" (just an advertisement or website taking pre-orders to see who bites. This is insufficient to validate any growth hypotheses) or it could be a working prototype.
  - When in doubt, simplify! Remove any feature, process or effort that doesn't contribute directly to targeted learning.
- One type of MVP is a **CONCIERGE MVP** - you serve one or very few paying customers first to validate the "Value Hypothesis".
  - Once proven you can scale knowing there is value and it's a desired product
  - Can validate "Growth Hypothesis" systematically- if using paid model, see if cost of acquiring and serving customers is less than revenue. If using sticky model, see if churn can become less than acquisition rate, etc.
- Need to find the **EARLY ADOPTERS** for first customers. Not mainstream or general public customers. Early adopters have the greatest need and are more likely to tolerate mistakes.
- The level of quality needed is a judgement. This applies to MVP, but also company infrastructure, processes and the company training/induction manual. The quality needs to be good enough as defects can cause rework, low morale, customer complaints, inhibited learning, etc. Additionally, a defective product or process used as a starting point it's a shaky foundation to build upon. Adding features may cause other parts to stop working or may contradict process steps.
- Try to build in smallest possible batches. Ideally batches of one – "**SINGLE PIECE FLOW**".
  - An example is sending 100 letters. Traditional thinking suggests printing 100 letters, then packing 100 envelopes and sealing is the fastest way. However the quickest way may be to complete one full letter and envelope at a time. When doing in batches of 100 there are additional steps like sorting, stacking and moving piles of letters and envelopes. What if they don't fit in the envelopes? Or 100 envelopes are packed and they don't seal?
  - Doing it one at a time is faster when uncertain. The overall system time is shorter. Plus one complete product is shipped every few minutes, rather than all at once at the last minute.

MEASURE

- **METRICS** to measure success/failure must demonstrate clear cause and effect. Metrics need to be Actionable, Accessible and Available
  - **ACTIONABLE** - It should be obvious based on the results what action must be taken. For example if the metrics are (1) number of new customers and (2) number of customers retained and they show you're gaining customers at a good rate, but you're losing customers at a similar rate, then the action is clear: focus product changes on retaining customers.
  - **ACCESSIBLE** – Make reports as simple as possible. Distribute copies to staff.
  - **AUDITABLE** – Data must be credible to employees. Need to be able to test the data by talking to the customers.
- Collect customer feedback data using **COHORT ANALYSIS**. Rather than looking at gross numbers (total revenue to date, etc), look at each group of customers that experience the particular version of the product.
  - For example, one cohort may be customers that signed up to version 2.2 in May. The next cohort may be customers that signed up to version 2.3 (with a new feature/change) in June.
  - This simplifies comparisons. It's simple to see if the change increased or decreased customer sign ups.
  - Using gross accumulative numbers is referred to as "vanity metrics". They look impressive but are difficult to analyse.
  - These graphs have the same data. Can you see which changes made positive and negative impact?





  - Cohort analysis shows increase or decrease in yield based on different groups or tuning activity. So we can say "with version B01, customers showed this behaviour".
- Can limit product release to small geographic area or market segment. This allows tuning while limiting bad press if something goes wrong.
- One approach to gaining customer insights is to do **SPLIT-TESTING OR A/B TESTING** - release products (or advertising) with 2 different features. One group of customers is split randomly and exposed to either option A or options B.

Summary by Adam Cusick. Reference: Ries, E, 2011. The Lean Startup. 1st ed. Great Britain: Portfolio Penguin

LEARN

- Learn faster than everyone else to beat the competition
- **VALIDATED LEARNING** –
  - Validated by empirical data collected from real customers
  - is created by offering something to customers and recording their behaviour
- Learn from results by using the **5 WHYS** approach.
  - Ask why 5 times
  - Make proportional investments – a minor issue needs minor effort.
  - Make incremental improvements. Changes compound over time freeing up time to run the business better.
- Based on customer behaviour learning you have 2 options:
  - **TUNING** – experiment with changes in the product (persevere with current strategy)
  - **PIVOT** – change the strategy
- If a company is making good progress towards the ideal, keep tuning. If not making progress or progress is limited, then the strategy is flawed and it may be time to pivot.
  - A pivot requires we leave one foot rooted in what we've learned so far, while making a fundamental change in strategy to seek greater validated learning.
  - If after a pivot the tuning activities are more productive, then the pivot was a good move. If not, pivot again!
  - Signs that you need to pivot-
    - Tuning reaching diminishing returns – decreased effectiveness of tuning
    - General feeling development should be more productive
- Suggest holding regular "**PIVOT OR PERSEVERE**" meetings
- **"PRODUCT (OR MARKET) FIT"** is when a startup finally finds a widespread set of customers that resonate with the product. If you're asking, you're not there yet.

- If success is obtained with early adopters, next are mainstream customers. They are much more demanding and less tolerant of mistakes. This requires a "Customer Segment Pivot".
- Growth from customer actions has 4 primary models-
  - **WORD OF MOUTH** – Enthusiastic customers talking.
  - **PRODUCT USAGE** – The product automatically shows other people the product. For example people see you driving a certain car or wearing a brand of shoes. Or when emails automatically say at the bottom "sent from iphone".
  - **ADVERTISING** – Only sustainable if paid for by revenue - advertising costs less than new customer revenue.
  - **REPEAT PURCHASE** – Some products are designed to be purchased repeatedly. This can be through subscription such as payTV, or through voluntary repurchase such as lightbulbs or Nespresso capsules.
- The above sources of growth power 3 **ENGINES OF GROWTH**:
  - **STICKY** - Products designed to attract and retain customers for the long term.
    - The mechanism can be different between products. You might retain customers because your shop is the go-to place for a product. Or you might have a product that locks people in to using it such as Nespresso.
    - Companies using the sticky engine must track their attrition rate (or churn rate). The churn rate is the fraction of customers who fail to remain engaged with the product.
    - The rules that govern the sticky engine are simple. If the rate of customer acquisition exceeds the churn rate, the product will grow. The speed of growth is determined by the "rate of compounding"- the growth rate minus the churn rate. Like a bank account earning interest- the higher the rate the faster the growth.
    - If your metrics are set up correctly, tuning is simple. If the customer acquisition metric is good, but the churn metric is bad, focus needs to be on retaining customers.
  - **VIRAL** – Product spreads rapidly person to person as the product function depends on person to person transmission.
    - The viral engine is powered by the viral loop - determined by the "viral coefficient".
    - A viral coefficient of 0.1 means 1 in every 10 customers will bring 1 friend. This is not sustainable (100 new customers at 0.1: 100 + 10 + 1 = 111 total). A viral coefficient of more than 1.0 will grow exponentially (100 new customers at 1.1: 100 + 110 + 121 +...).
    - Companies must focus on increasing the viral coefficient. The tiniest increase has dramatic effects.
  - **PAID** – Paying for advertising or staff to sell the products.
    - The total revenue from each new customer (LTV – Lifetime Value) must be greater than the total cost of acquiring the customer (CPA – Cost per Acquisition). So if it costs 80c average for every new customer, and each brings $1 of revenue, 20% of the revenue (marginal profit) remains to reinvest in acquisition. The size of the marginal profit determines growth rate.
    - To increase growth rate: Increase LTV, decrease CPA.
    - Over time CPA will tend to increase due to competition. Your product needs to differentiate itself to stay ahead, and/or target a different demographic.
- In growth, what matters is not raw numbers but direction and degree of progress. For example company A currently has 5% growth and company B has 10%. But what if the last few months looked like this?-

MONTH	COMPANY A	COMPANY B
Mar	1.5	9.9
Apr	3.2	9.7
May	5.0	10.0

THE LEAN STARTUP

"There is surely nothing quite so useless as doing with great efficiency what should not be done at all"