

# Fail Fast or Win Big

The Start-Up Plan for Starting Now

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## THE SUMMARY IN BRIEF

As an entrepreneur, you are not in the business of writing business plans. You need to move faster. Market conditions evolve so rapidly today that by the time you could perfect a business plan, it would likely be obsolete and your competitors would have already beaten you to market. It makes more sense to remain lean, flexible and willing to change with the marketplace. You need a new way of thinking and doing.

The LeanModel Framework™ is your way forward. This business framework strategy lets you forego many of the most time-consuming and least productive elements of business planning in favor of getting a working prototype of your service or product to market in 90 days or sooner. Doing so will supply you much more quickly with the information most crucial to your business trajectory: initial customer feedback, from which you make the decision to tinker or rethink your approach, scale up or even abandon ship.

*Fail Fast or Win Big*, based on the author's more than 20 years spent helping small companies become market leaders, helps you get right down to it.

## IN THIS SUMMARY, YOU WILL LEARN:

- How to anticipate markets that will morph into new opportunities.
- Techniques to rapidly develop and deploy prototypes into test markets.
- Ways to immediately leverage lessons learned into your next launch.
- How to find funding from new and unconventional sources.

### The End of Business Plans

As an entrepreneur, you need to accept that *speed to market* is the new normal and that fast just means faster to take advantage of opportunities that are seemingly nowhere and then everywhere.

To understand the start-up ecosystem and the need for speed, let's look at how things used to be done and why they no longer work as well anymore.

#### Who Needs a Business Plan?

In the 1960s, venture capitalists created a new way of building an enterprise, expressed by this formula:

***Entrepreneur opportunity + business plan + venture capital = new company.***

Why was this so? Because the corporate managers, scientists, researchers and engineers who were creating the first tech companies in what would become known as Silicon Valley couldn't get bank loans.

What's really amazing is what occurred next. Universities in the United States in the 1980s, especially MBA programs, began to embrace this same model of how companies should be created and funded, and they began teaching the development of business plans and venture financing in both their undergraduate and graduate programs.

So it was for a few generations of students that the novel concept started in the 1960s has become the conventional wisdom.

Is it still wise, though? Do you really need to write a detailed business plan? Does a business plan still have value?

#### What's Wrong With This Model Today?

While this model has worked well during the past 50 years, it now has several problems. First, the opportunities for entrepreneurs in the world have increased, so there are many more opportunities than there are traditional investors. Second, because marketplaces are appearing almost overnight, should you risk a marketplace window's closing because you have to spend four to six months writing a detailed business plan and looking for investors? No.

Third, a business plan is out of date the minute it is finished. Fourth, and most important, the business plan's greatest failing is that it takes so much time trying to predict success that it also takes too long for you to fail.

The traditional model of writing a detailed business plan, pitching to investors and obtaining financing will probably never completely go away. But for most startup opportunities in the future, the LeanModel Framework will provide a great hedge for success.

### The New Way: The LeanModel Framework

Instead of spending months writing a business plan and then looking for investors who may not give you any money anyway, adopt the LeanModel Framework. The LeanModel Framework is made up of four integrated components: Lean Resources, Business Model, Rapid Prototyping and Customer Truth.

Let's take each of these elements in turn:

- **Lean Resources.** Empower a mentality that believes less is more.
- **Business Model.** Take the time to really understand your marketplace, current trends and your target customer segment; then craft a business model that not only makes common sense, but it makes money.
- **Rapid Prototyping.** Create a minimum viable product or service that you can test with the marketplace as rapidly as possible.
- **Customer Truth.** Listening to and gathering feedback from your potential customers is crucial. Feedback from customers is what will often give you the insight needed to iterate, pivot or abandon your idea.

#### Entrepreneurs, Be Curious

As a potential entrepreneur, you need to be manically curious about a potential product or service—curious to the point you will investigate and research its potential customers, the trends surrounding it and the marketplace for it. Here's how to get started:

1. **Understand the Actual Marketplace.** If you have an idea for, say, the pet industry, then go visit a pet store, and take careful note of the products and services currently offered. Look at online e-commerce pet-care websites, and see what their key attributes are.
2. **Talk to the Customers.** There is nothing like talking to customers to get insights. Stand outside of a store, and conduct a survey. Visit a dog park or boarding kennel.

**3. Visit Your Competitors.** If possible, visit your potential competitors, and see how they run their businesses.

**4. Understand the Key Trends.** In addition to getting key insights via research or trend tracking, consider attending related events or trade shows to learn even more.

**5. Test Your Idea.** Test your idea for a product or service, even if it's just a prototype or early product. Learn and adjust.

Regardless of your situation, you move faster. You don't have time to write a 30-page business plan. You create a business model on your potential product or service, and you go validate it. Speed to market is critical.

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## Ideas Are Great But Business Models Rule

A great idea with a weak business model will ultimately fail. You need to refine and mold your business model so that it becomes a strategic weapon. Can your business model be as great as or better than your idea?

Many entrepreneurs are so "in love" with their idea that they don't see its potential flaws, whether those flaws are in their product, their strategy or their business model.

### Build a Real Business Model

A critical element of the LeanModel Framework is the early identification, iteration and evolution of a startup business model.

No matter how you define a business model, it's the business model *elements* we are most interested in. These are the building blocks of the business, the essentials. Here are the key elements of a business model:

**The Unique Value Proposition.** The improvement you introduce may be incremental, not revolutionary. And there's nothing wrong with that. You can study and intersect trends à la Steve Jobs and try to predict what customers will need.

**Customer Relationship Feeling.** How can you create a product or service so well that customers actually "feel" an emotion when using your product or service?

**Customer Target Segments.** Make sure you know everything about your target segment of potential customers. Obtain demographic information (facts like age, sex, residency, etc.) and the psychographic details (lifestyle, interests, etc.). If you believe you have more than one customer

segment, then determine if you need to treat the segment groups differently.

**Distribution Channel Strategies.** If you consider entry into a marketplace from a number of "channels," evaluate the workings of direct sales, wholesalers, retailers, distributors and selling online; of the latter, consider either your website or online retailers like eBay or Amazon.com.

As you consider your options, your distribution strategy should take account of the potential revenue and gross margin contribution of each distribution channel. Since this area is so critical to the business model, thorough research is required.

**Startup Activities.** If you examine your business model carefully, you can prioritize based on what needs to be done to rapidly build a prototype of your product or service.

**Startup Resources.** You will always need more money than you think you will need. You will also need people and a way to manufacture and distribute a product. Do you need someone to program or build something? If so, refrain from giving people equity unless they are mission-critical. Don't throw equity around in those early days. For one, you will need that equity down the road for attracting really critical partners or key hires. And, two, I have seen more entrepreneurs in court or arbitration hearings due to a breakup or difference in strategy.

**Partners, Strategic and Tactical.** Trust yourself. Trust your instinct. And if you are going to build a company, learn how to trust others. Although there are any number of partner types, three key areas are manufacturers, distributors and suppliers. Before you choose any of these partners, talk to other entrepreneurs who have gone down a similar path.

**Product or Service Costs.** Once you have a handle on estimating your expenses, move everything into a 12-month forecast sheet, and estimate, conservatively, your projected revenues and expenses from month one through month 12. Based on this forecast sheet, you can tell if you are actually making money. But more importantly, you can tell how much money you need on hand *before* you start your company.

Quite a few entrepreneurs have launched their companies without enough cash on hand to fund inventory replenishment or critical product refinement. In the early days of a startup, *cash flow is king*. Never forget that.

**Selling/Revenue Sources.** The key is to examine the marketplace and understand how and where customers want to purchase your product or service. After reviewing every

possible revenue opportunity, then you decide, perhaps in the order or priority, which revenue streams to initially pursue, knowing you can add others eventually. As an entrepreneur, you are either going to sell something or not. It's up to you.

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### Lean Resources: Less Is More

If you think that having more money yields better creativity, guess again. People tend to think more creatively when they have to get around a lack of funds or resources. In order to be successful, it's best to adopt a lean-resources mentality. Technology and new emerging marketplaces allow an entrepreneur to accomplish an incredible amount with lean resources. For instance, you can source small amounts of your product and sell them on Amazon.com to test the idea and generate some revenue at the same time.

#### Leverage Is Key

You need to leverage all the lean resources that are available to you. Launch and run your new startup so lean that you might actually produce cash early on to help fund the company. You need to leverage everything, including the following six areas:

**People.** Launch a company around expertise you already possess by treating yourself as a “rapid prototype.” If you know search-engine optimization, you can sell yourself as an online marketing expert. A sustainability specialist can advise other companies.

**Local and Global Talent.** Most universities have course requirements that involve practical applications, and you can leverage these resources for your own product development. There are also online communities that can provide a pool of freelance talent to help you out in a variety of ways.

**Local Community.** You can improve your prototype with local retailers before taking it to the national market. If you test your product or service in such a local environment, be sure you have some measure of control in the supply, delivery and selling process.

**Financing Options.** If you do need capital, ask what you can downsize, sell or eliminate to free up some cash. Investors bet on passionate people who have bet on themselves. Try banks or local lenders, and seek out city or state grants. Review your credit cards' interest rates. Never risk more than you can afford to lose.

**Technology Tools.** Even if you don't like technology, you need to understand the technology that might give you

a competitive advantage. There are two major groups of technology tools to consider. Technology platform tools allow you to open a business and sell your product. Technology-enabling tools allow you to market and run your business.

**Manufacturing.** The first option is local manufacturing or distribution. When local isn't the best choice, China is still a strong source for manufacturing. Finally, there's near-shore manufacturing in Mexico. Also, keep your eye on 3D printing, as it will provide some interesting solutions for low-volume, unique products or prototypes.

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### Rapid Prototyping, Right Now

There is simply no better way to judge the viability of a product or service than to actually *test* it. Think: minimal viable product. If you delay, the window could close, or worse, a competitor may jump through the open window with a minimal product and gain the first-mover advantage.

You need to get over your fear of failure. Most people fear failure, and therefore they move too slowly when they should be creating a rapid prototype of their product or service.

There are lean resources available to help you build your rapid prototype. Here is a solid thought-starter list to get you moving:

**People.** Being able to leverage your network will help you directly or indirectly by connecting you to people who can help you.

**Internet Tools.** There are a variety of either free or low-cost solutions available. The point is to test something, move quickly and learn if you are on to something that will sell in the marketplace.

**Online Platforms.** With Amazon.com or Etsy, you can quickly create a product prototype, or even acquire a few products, and test them with real customers in these online marketplaces.

**New Technologies.** The reason you have to pay attention is that new technologies entering a marketplace create ripples that you might not initially see. Those ripples grow and spread into new products and services.

**Manufacturing.** Know what resources are available locally to help you build your prototype. But expand your region to a 150-mile radius so you'll have greater options. Look into “rent by the hour” manufacturing and engineering facilities.

**Marketplaces, Local and Elsewhere.** Remember, *ini-*

*tially* your customer is not everyone in your large customer segment; your customer is in the niche target segment that houses early adopters or influencers. If your product is successful with them, they will carry you to the rest of your customer segment.

### The Whole Customer Truth

If you connect with your customers and keep your product or service promise, those customers will help you with your marketing. They will write solid reviews. Via word of mouth, they will tell others about your product or service. But ignore them and you do so at your peril.

A great idea that's poorly executed with customers is in real trouble. Especially if those customers have the option to buy the same type of product or service from your competitors.

### Embrace Customer Truth

To fail fast or win big, you need to understand your customers. You also need to embrace the idea that customer feedback, or "customer truth," is critical to the success of your company. Marketplace graveyards are littered with companies who quit listening to their customers (for example, Blockbuster, Borders, Nokia, Kodak, Circuit City). Many other large companies are teetering on the edge of failure and will almost certainly be gone in the next few years.

### You Are Not the Customer

Never assume you know your potential customer. Ever. That realization forces you to do several things, including

- Always be researching the marketplace and trends.
- Base your decisions about customers on as many facts as possible.
- Surround yourself with other people who might have customer insights.
- Relentlessly visit the customer environment.

Many entrepreneurs and company founders speak as though they are customer experts—yet yesterday, before the launch of their startup, they were engineers, nutritionists, lawyers, accountants, programmers and the like. When did they transform themselves into the customer?

You need to understand your customers. You can't assume that you know everything — or even anything — about them. You can't *pretend* that you are in the mindset of your customer.

### Seek Customer Truth—Relentlessly

Think relentless, which means "unending." Though you're just forming your startup, embrace the idea that you'll continually be in the customer's environment to learn about that customer. You're not just there at their purchase decision but also wherever the actual customer environment is, whether that's a retail location, a dealership service area, a restaurant, a local mall, an airport or a grocery store. You will be studying customer behavior so well that you will "know" what they might do next.

### Anticipating What Customers Want

Steve Jobs once said, "It's really hard to design products by focus groups. A lot of times, people don't know what they want until you show it to them."

If you read this quote, it seems to make sense. And yet, do you want to hedge your bets and get some direct customer insight? Of course, but it can't drive the decision-making process. It can add insights or help confirm some assumptions, however.

Here is the takeaway. You need to know your customer. You need to know your customer's environment. As much as possible, you need to know what your customer aspires to be or do. You need to have an ability to have conversations with that customer. Customers will tell you what they want but not what they need. The truth about customers is that they will tell you what they *don't* want. Gather as much information as possible. Listen well, and, it is hoped, you will give them what they need. If not, they will tell you the truth.

### Customer Truth is Defined by the Customer

Customer truth might be industry jargon, but it's the process a customer goes through with respect to purchasing a product or service. This process happens in stages, and you should be aware of them:

**Zero Moment of Truth.** Created by Google, it's what people search for and find after encountering the initial message that directs what they do next.

**First Moment of Truth.** Introduced by Procter & Gamble (P&G), it's what people think when they first see your product and the impression they form when they read about it or see images of it.

**Second Moment of Truth.** It's when people feel, think, see, hear, touch, smell and (sometimes) taste, as they experience your product or service. This is not the first time but occurs after several purchases.

**Bernie’s Moment of Truth.** This is my spin on the moments of truth. It’s how the brand listens or reacts to a customer problem. It could be as simple as an order of coffee or as large as a washing machine. If that “brand” steps up and satisfies you, you will be with it for a long time. If it disappoints, you are gone.

As an entrepreneur, you will need to understand the consequences of not listening or failing to deliver excellent products and services to your customers. Define “customer truth” any way you want; but understand its power.

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### Entrepreneurs Have a New Investor: The Crowd

The traditional ways of creating and launching an entrepreneurial company still exist, but the world of startup funding has changed forever. The entrepreneurial ecosystem of financial support has radically been altered. In 2009, a new form of funding arrived, called crowdfunding.

What’s driving all these crowdfunding platforms? The democratization of buyers and sellers. Every marketplace needs sellers (in this case, entrepreneurs) and buyers (for entrepreneurs, investors) to be successful.

In short, the new investors are here, everywhere. They are you and me, and everyone else who has access to the Internet and some dollars to invest.

#### An Overview of Crowdfunding

**Reward.** Reward campaigns exemplify “traditional” crowdfunding. In exchange for some reward (a discount, freebie, product pre-order or other item), individuals contribute money to an organization, project or company.

**Debt or Lending.** Similar to bank loans, these arrangements call for applicants to demonstrate creditworthiness, or an ability to responsibly handle and repay debt. For entrepreneurs who do acquire loans through debt-based crowdfunding, the interest rates vary so shop around for the best rates and terms.

**Equity.** Equity crowdfunding is an amazing alternative compared to traditional sources of funding. It is the collective effort of individuals (investors) who network and pool their money, usually via Internet crowdfunding platforms, to support entrepreneurs by providing investment capital in the form of equity.

In the next few years, hundreds of investment firms will rush to offer crowdfunding equity platforms. Some super angel

investors, venture capitalists and private equity funds will set up their own platforms. Things will settle down, and crowdfunding will flourish as a major alternative funding source.

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### Opportunity Is Here and Everywhere

In his book *Myths of Innovation*, Scott Berkum says that most people do not understand how entrepreneurs create new companies. He describes the myth of “epiphany,” that light bulb that goes on in the head of an entrepreneur in the middle of the night.

The epiphany is that sudden realization of a relationship, that merger of dissimilar thoughts. But it usually comes only after many years of familiarity with a subject. So, how can an entrepreneur increase the chances of having an epiphany that could potentially yield a new idea? Here are a few ways:

**Become an Expert in Your Area of Expertise.** Use your expertise to leverage your knowledge and experience to create a new type of product or service.

**Look for Emerging or Disrupting Trends.** When Amazon CEO Jeff Bezos observed the emergence of the Internet, he saw the potential for a new distribution platform for selling products. He just needed to validate that enough customers would exist in this new marketplace.

**Surround Yourself with Different People.** If you want to generate ideas, don’t hang around with people who are exactly like you. Different perspectives on the same subjects can create a robust environment for discovering what’s next.

#### Target a Marketplace

So, you are a would-be entrepreneur, but you don’t have an amazing idea for a startup. Here is a thought. Rather than straining to come up with an idea, examine a large and/or growing marketplace thoroughly; get to know its workings so well that you might well surface a problem or opportunity. Only then should you try to create that new product or service.

Quite often, it’s this pursuit of information about a market that is lacking in potential of newly minted entrepreneurs. The serial entrepreneurs, though, seem to have figured it out.

You can have an amazing idea, but if there is no clear market opportunity, it might just as well be worthless. The worst thing you can come up with is a great idea that only 1,000 people can buy or utilize (works if you are SpaceX).

So, a better way to look at entrepreneurship is to start

with the marketplace, then follow with the idea, usually a solution to a problem customers are having.

If you have an idea, look at the potential market. How many people could buy your product or service? Is that market growing? Or, has it been disrupted by some new development? What are the key trends driving buying preferences?

With the LeanModel Framework in mind, target a favorable market, or come up with a low-risk strategy in a potentially unfavorable market. You really can't put together a business strategy on an idea unless you understand the marketplace and its potential customers. The more you examine that potential marketplace, the more you will learn. You will then spot something that you can test with a LeanModel Framework, and you'll either fail fast or potentially win big.

### Iteration, Evolution or Revolution

Too many entrepreneurs think that, to have a successful startup, they need to create something the world has never seen before. So, they spend a large amount of time thinking of solutions in search of problems or marketplaces. It would be better if they focused on large markets (customers), trends or the disruption of a marketplace caused by an early leader or a technology shift.

Let's put it in perspective. Google was not the first search engine. Apple did not launch the world's first MP3 player, smartphone or tablet. Starbucks did not create the first cafe. But they all have something in common. They all *iterated* or *evolved* a product or service beyond its current state. They added improvements that the marketplace both wanted and needed.

It takes something pretty amazing and insightful (or years of research and effort) to create a *revolutionary* product or service. Revolutionary products do create or change entire marketplaces, and new ecosystems evolve. Probably only a few thousand products in the history of mankind have been truly revolutionary. Why do entrepreneurs think they have to create something revolutionary? Entrepreneurs: Consider iterating an existing product or service in a large marketplace. More often than not, that is what drives most successful startups.

### Key Elements in Finding Opportunities

To provide some guidance in your quest for defining opportunities, here are some perspectives, tools and resources. These should help you find, define and perhaps position your company as a new startup in the marketplace.

**Trends—Do You See Them?** Invariably, conversations

about entrepreneurship turn to the subject of trends. How is it possible to identify and track so many trends in multiple industries and across so many customer segments? You need to be insanely curious.

**Understanding the Entire Marketplace.** Invariably, both customers and industries go through change. So, usually when one new product or service invades an industry or customers adopt a new product or service, there are multiple effects. You have to step back, look at the bigger picture and see what might happen inside the entire marketplace. When you first saw a smartphone, did you "see" mobile applications and accessories too?

**Know the Major Customer Groups.** Do you look at large customer segments? Do you even know who they are? Millennials will number more than 80 million by 2025 in the United States. This large customer segment is changing and helping to create several new industries. Do yourself a favor and gather enough information so as to determine the major trends here. Then ask yourself what opportunities exist for a startup company to leverage one or two of those key trends. You just might win big.

**Industries Changing and Emerging.** For an entrepreneur, there is always opportunity. You just need to look at something hard enough. But as you look for opportunity, you need to look for gaps in the marketplace.

**The Perfect Storm ... Trends Crossing Customers and Industries.** The holy grail of entrepreneurship opportunity is uncovered when a major shift occurs across a large target population and simultaneously the same trend is changing a large industry. Think of the demographic of 16- to 30-year-olds consuming content on their laptop computers while the distribution of content is dramatically shifting.

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## If You Want to Be an Entrepreneur, Be One

If you want to be an entrepreneur, consider what your area of expertise is. What is your skill set? Can you leverage your skill set in an industry or an emerging marketplace? What does an amazing team look like? If you don't know where you are going, any path will get you there.

There are a lot of people who have become really good entrepreneurs. They are not special. What is the most important thing they do? It is that they *do*. They quietly go to work on solving a problem or addressing the needs of

a large marketplace. They surround themselves with good advisers, and they are constantly seeking counsel and customer feedback. They have very little ego (don't mistake ego for confidence), and they believe the right (not necessarily best) idea **and** the hardest work ethic are what will win. They acknowledge that sometimes the reward goes to the team that just works the hardest. And so they don't easily quit. They adjust, evolve and pivot. Sometimes this works, and a company is born. Sometimes this does not work. But these entrepreneurs realize that there is no rewind in life, so they are definitely going to enjoy the ride. After all, if they fail, they can always go to work.

### Founders Create Startups, but Teams Build Companies

The very best entrepreneurs have a capacity for communicating a clear vision for their company and a passion to draw others to its mission. They have an ability to recognize talent when they see it and have an amazing skill for recruiting people who share their passion. What true entrepreneurs realize is that they are only good at one or two things, and so they need to attract the best possible people to help them in building a real company.

### Entrepreneurship Is a Mentality

You should be constantly in a lean state of mind regarding any and all resources. Because you probably won't have enough money to do everything you want to do. Your biggest asset is leverage, therefore. Leverage every resource possible, whether that's office space, technology or people. Think lean, be lean. Guess what? If you behave in this manner, you will get things done, and other people around you will become resourceful as well.

### Embrace the Idea of Listening

When you mention the name Steve Jobs, it polarizes people. Regardless of how you feel about him, he was insanely great at "being" the soul and voice of the customer inside Apple. He had a remarkable ability to spend time with customers or with competitive products and to see the opportunities, again and again. Part of his talent was evident in his blending of customer insights and emerging trends. He was constantly interested in what was coming next, and he paid close attention to trends as they might affect customer behavior.

A collective customer voice is your truth. Ignore it at your peril. The marketplace rarely has room for arrogance; put on your humble hat. Be prepared to adjust your product or service, based on feedback and changes occurring in the marketplace.

Most people don't see the trends forming all around them. But learn to spot these trends, match them to large marketplaces, and you can almost "see" the next product or service people will need.

#### IF YOU LIKED THIS SUMMARY, YOU MIGHT ALSO LIKE:

- *Disciplined Entrepreneurship 24 Steps to a Successful Startup* by Bill Aulet
- *The Pumpkin Plan A Simple Strategy to Grow a Remarkable Business in Any Field* by Mike Michalowicz
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