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The Lean Startup

by Eric Ries

Eric Ries is an entrepreneur and bestselling author. His *New York Times* bestseller, *The Lean Startup*, has sold over one million copies. The Lean Startup methodology has become a global movement in business, practiced by individuals and companies around the world. This methodology was the inspiration behind his founding of the LTSE and his books *The Leader's Guide* and *The Startup Way*. Eric has founded a number of startups, including IMVU, where he served as CTO, and he has advised on business and product strategy for startups, venture capital firms, and large companies, including GE, with whom he partnered to create the FastWorks program. He has served as an entrepreneur-in-residence at Harvard Business School, IDEO, and Pivotal, and he is the founder and CEO of the Long-Term Stock Exchange. theleanstartup.com

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Creating Something New Under Uncertain Conditions

Author Eric Ries is on a mission to help startups succeed in launching innovative products. He wrote *The Lean Startup* to help entrepreneurs avoid failure due to falling prey to outdated modes of operation. As he explains, startups fail, badly, all over the world because of two main problems. First, entrepreneurs apply indicators that are only reliable when applied to a stable organization with a long history. Startups are not stable and do not have a history yet. Second, many entrepreneurs and investors turn to chaos when faced with the reality that traditional methods have failed. Figuring that old management methods are a path to failure, the road to success is paved with no management at all. That doesn't work either!

Ries acknowledges that startups are, by their very nature, “disruptive, innovative, and chaotic.” He says that startups must be managed if they are ever going to make it past the startup phase into a functioning, profitable company. What's needed is a better way of harnessing the human resources of “passion, energy, and vision” that are brought to fledgling organizations. *The Lean Startup* helps entrepreneurs build upon established development ideas to become continuously innovative. This approach is characterized by very fast product cycles, an emphasis on giving customers what they really want, and implementing a proven method of decision making.

Vision

In the first part of the book, Ries defines entrepreneur and startup and introduces the idea of “validated learning.” When we hear the term entrepreneur, we think of individuals who bring their business ideas to life, working autonomously for themselves. Those traditional startup entrepreneurs are certainly included in Ries' definition of an entrepreneur, but they are not the only ones. Ries finds that there are just as many entrepreneurial visionaries inside corporations. He calls them *intrapreneurs*.

Intrapreneurs are people within even very large companies that are “tasked with creating new ventures or product innovations.” They are skilled in setting up autonomous divisions, forming teams, and other organizational processes. They are ready and willing to take bold risks and attempt to find innovative solutions to problems faced by the company.



Ries has worked with many such intrapreneurs and he believes they are more like their traditional startup counterparts than most people realize. When Ries uses the term *entrepreneur*, he is referring to these groups collectively. He is referring to “the whole startup ecosystem regardless of company size, sector, or stage of development.”

A *startup*, as defined by Ries, is “a human institution designed to create a new product or service under conditions of extreme uncertainty.” Why the word institution, which is so often associated with red tape? Startups that make the cut and become successful are bustling with the very activities associated with building an institution. Startups have to hire creative staff, coordinate activities among the staff, and begin the process of creating a company culture that achieves results. Although startups are often associated with the product or tech breakthrough they are bringing to market, they are, at their core, an “acutely human enterprise.”

Ries chooses to use the term *product* in the broadest sense of the word to include “any source of value for the people who become customers” of the startup. *Innovation* is given an equally broad understanding. It can mean anything from a scientific discovery to a new business model or untapped market.

When something fails, learning is often cited as the silver lining. Managers seem to think, “at least we will learn from this mistake.” However, learning, Ries says, is “cold comfort” to those who have invested time, money, and energy on an innovation. And yet, learning is a vital function of entrepreneurship. Learning enables entrepreneurs to decide which parts of their strategy are working and which are not. Learning what customers want and don’t want is essential to providing a product they will purchase. Ries says that learning has to be rehabilitated with an idea called *validated learning*.

Validated learning is “the process of demonstrating empirically that a team has discovered valuable truths about a startup’s present and future business prospects.” It differs from traditional forecasting and planning in that it is faster, concrete, and more accurate. Ries believes that learning should be focused on discovering what customers want. Learning that is not directly linked to that cause can be eliminated.

Ries calls this validated learning because “it is always demonstrated by positive improvements in the startup’s core metrics.” With clearly identified metrics, the startup can see “quantitative validation” that they are either on the right path or that they need to change direction. As the entrepreneur gathers more knowledge about their customer and their product, they discover “new experiments to run” that get their metrics ever closer to the goal.

Steer

In the first part of the book, Ries points out that startup products are essentially experiments. The outcome of those experiments is what startups learn about how to be a successful business.

In part two of the book, he digs into the process that is the core of his Lean Startup model. He teaches entrepreneurs the process of how to build a viable product that can be tested, an

accounting system to measure progress, and a decision-making method to guide the way forward.

The differentiating factor between startups that fail and startups that succeed, he notes, is that those who are successful “had the foresight, the ability, and the tools to discover which parts of their plans were working brilliantly and which were misguided.” Successful entrepreneurs adapt and change their strategies accordingly. There is a time-tested process that can allow entrepreneurs to do just that.

Ries calls this three-step process the Build-Measure-Learn feedback loop. This feedback loop “applies the scientific method to a startup.” The first step in any experiment using the scientific method is to form a hypothesis that can be tested. Ries refers to a startup’s riskiest plan elements as “leap-of-faith assumptions.” These are related to perceived value and growth potential and everything else rests on their viability.

Once a startup has identified these leap-of-faith assumptions, they can start testing them. Ries says the key is to enter the Build phase as quickly as possible with a “minimum viable product” or MVP. He explains that this is a version of the startup’s product that is developed just enough to make it through one cycle of the feedback loop. It allows entrepreneurs to get into the learning phase of product development as quickly as possible. It will lack many of the features that may be added later on, armed with metrics from the loop. This MVP needs to be placed in front of customers to be tested, tried, and measured.

“Build it and they will come” is rarely true. If a startup builds a product that nobody wants, there will be no customers coming along. Progress towards this end must be measured. In this stage of the loop, entrepreneurs are challenged with “determining whether the product development efforts are leading to real progress.” Ries recommends using “innovative accounting” to quantify experiment results. Learning milestones are established, and the product is measured against those metrics. This information assesses progress in both an accurate and objective way, which is imperative for the startup itself and for those invested in its success.

Finally, the startup must take all of the information it has learned and decide to stay the course or pivot, making a “major change to a new strategic hypothesis.” The Lean Startup method and the feedback loop specifically, help startups get through the process quickly and efficiently. The loop allows startups to pivot sooner if needed, reducing waste in terms of time and money.

Accelerate

In the book’s final section, readers are given techniques that will help them get through the Build-Measure-Learn loop quickly. Further, Lean Startup principles are shown to be applicable to businesses of all sizes and ages, including “inside the world’s largest companies.”

Ries advises readers to rely on a technique called *small batches* that has long been relied upon in lean manufacturing. The greatest advantage to producing products in small batches is



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that it allows the manufacturer, or startup, to identify problems much faster. Even though the cost to produce a single unit is higher in small batches versus large, the benefits of quickly identifying and solving problems outweigh those costs. This is especially true for a startup that is trying to get through the feedback loop process in order to hone their product to their customer. Validated learning happens more readily, which gets the startup closer to running smoothly, faster.

Sustainable growth is the next important factor for startups to face. Ries excludes one-time jumps in growth that result from publicity or successful marketing campaigns, focusing instead on growth that is “characterized by one simple rule: New customers come from the actions of past customers.” Customers drive a startup’s sustainable growth in four primary ways:

1. Word of mouth that results from enthusiastic customers that can’t wait to tell others about the startup’s product.
2. Customers begin using the product in large numbers leading to so-called viral products.
3. Advertising efforts that are paid for directly from the startup’s revenue.
4. Repeat use or purchase from an established customer base.

These four sources of sustainable growth fuel a startup’s feedback loop. For this reason, Ries has termed them “engines of growth.”

Being adaptive is another important criteria that startups need to possess in order to move through the feedback loop quickly. Any systems or processes that are developed need to be “subject to constant experimentation and revision.” This flexibility makes those very systems and processes “more effective and less burdensome over time.” Adaptivity builds in checks that prevent the startup from speeding too quickly through the feedback loop. Although there is a constant emphasis on speed to avoid waste, the controls that result from adaptive systems ensure that there is some problem prevention. Although this slows things down a bit, it is just enough to make sure things are moving forward in the right direction, which also reduces waste.

Ries believes that even very large, established companies can be innovative and thus, entrepreneurial. He calls this management philosophy “portfolio thinking.” A key component for these startup teams within large organizations are their structural attributes. Those attributes include “scarce but secure resources, independent authority to develop their business, and a personal stake in the outcome.” Scarce resources make team members work harder because they have to do more with less. Autonomy allows in-house entrepreneurial teams to be agile and respond

quickly to their adaptive learning. If they have to get approvals and sign-offs, the entire feedback loop is slowed down so this kind of oversight should be kept to a bare minimum. Lack of oversight is sometimes scary for organizational leadership. This can be overcome by giving intrapreneurs a personal stake in the outcome. Ries suggests that financial stakes are the most effective. Stock options, bonuses, or other equity options work very well to keep the team engaged, focused, and working. Further, credit should be given where credit is due. If the intrapreneurs are certain that they will be named as the team that brought the product to life, they will be significantly incentivized to stay the course, even with full autonomy.

Ries cautions readers that the old ways of launching products are not simply “devoid of science.” They are actually based on “pseudoscience.” Countless startups have been launched based on the founder’s intuition alone. This vision is imperative and, Ries says, the vital first step in the launch of a product. However, what the startup does next is often the first misstep, leading to catastrophic failure. Oftentimes, entrepreneurs mine their data for evidence that supports that vision. Rather than facing hard facts that things are not working, they find a way to justify what they are doing, continuing on a path that is utterly doomed. Incorporating customer feedback and seeking accountability from external stakeholders disallows the entrepreneur to ignore what is right in front of them. Even when it goes against the entrepreneur’s much-admired vision, the feedback loop shows the way to go, with brutal honesty and efficiency.

The Lean Startup was published in 2011 and has had a major impact on how startups operate and how students learn about launching innovative products ever since. Ries provides readers with concrete advice that can be put into action in meaningful and immediate ways. His methods that focus on experimentation, starting with an MVP, or minimally viable product, and changing course, or pivoting, when problems with the product are identified, have been incorporated into business school curriculums and talks across the globe. The Lean Startup method is so effective that it sparked what has been called a movement among entrepreneurs, forever making a mark on the way products are launched both by startups and within large corporations.

By going lean, startups fail fast instead of investing great sums of time and money in a product that ultimately misses the mark. Reducing the time to learn from mistakes saves a startup money, reduces waste, and puts them on the track for success sooner. Entrepreneurs can dive in with confidence when armed with Ries’ time-tested methodology for startup success.