The Lean Startup

A new way of product development

The Lean Startup – or Lean Innovation – is an approach that focuses on running startups and launching new products or services effectively. The typical approach for »developing new things« is to write a business plan, present it to investors, introduce a product, and start selling. But this does not work for everyone, especially for startups. Simply put: it is too complicated and costly, and the process takes too long for them.

by Milan Gazdík

The traditional approach to product development reflects the strategy, vision and business plans of a company. The team of product and project managers follows the plan and relevant project ideas are discussed and approved by steering committees. The scope is determined by budget and systems. Any constraint can affect product functionalities, which are subsequently reduced or modified. Every change results in another loop and approval flows start again. Additionally, interaction with the external environment is very limited. All of these factors cause a long »time to market« approach with hardly any flexibility and the initial scope is changed significantly. The development of a new product or a system change typically takes months or years.

The Lean Startup approach tries to consider these factors and eliminate them. Hence, the key idea of the Lean approach recommends that only valuable activities must be incorporated and that the customer is a major approver.

»Lean« reduces the risk of failure

The roots of the methodology are in Lean (developed by Toyota), where speed and customer value have always been dominant principles. This product development methodology initially used by startups is less risky and favors experiments over strategic planning, ►


If you ask me,
our management could
be leaner
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customer feedback over management decisions, and agile design over traditional project development and testing approaches. In product development (Lean Startups), the following three key Lean principles are used:

Principle 1: Reduce the time to plan and implement
Startups use a typical »business model canvas« diagram to summarize how a company creates value for customers. In detail, the areas are:

— Activities: fill in the most important activities needed for executing your proposition.
— Partner network: define who helps optimize operations and helps reduce risks.
— Value propositions: collect products and services that meet the customers' needs.
— Customer segments: identify which customers will be targeted with the proposition.
— Channels: define how you will reach your customers.
— Customer relationships: specify the type of relationship you want to create with each customer segment.
— Revenue streams: define the way a company makes income from each customer segment.
— Cost structure: describe the most important financial consequences within different business models.
— Resources: list the main inputs that are used to create the value proposition, service its customer segment and deliver the product.

Principle 2: Utilize the »voice of the customer«
Ask your potential customers and suppliers for feedback on all aspects of the business model, including product features, pricing and distribution channels. The emphasis is on speed when you seek opinions, but they still need to be gathered and evaluated properly. Based on these »voices,« all hypotheses or assumptions might require revision and if needed, you have to start the cycle all over again by testing redesigned ideas. In order to get constructive customer feedback, it is best to mix quantitative, closed-ended questions (what?) and qualitative, open-ended ones (why?). There are several tools for working with customers' »voices.« They are used for either testing the idea itself (testing the proposition) or the acceptance of the solution.

Tool example – comprehensive test: test the understanding of the proposition within a group of up to twenty people. Start by writing down the value proposition in up to three sentences, show this to each participant for a few moments and then hide it again. Ask the participants to describe the value proposition in their own words. If around 80 percent of the explanations are comparable to the real one, it is a positive result. If not, the product needs modification.

Tool example – smoke test (startup edition): the value proposition is presented to the customer. Feedback from customers is based on the exchange of some form of payment. Customers may pay real money or with commitments to give something intangible but personal. Good examples are personal data and email addresses. The willingness to pay for a product is measured and evaluated.

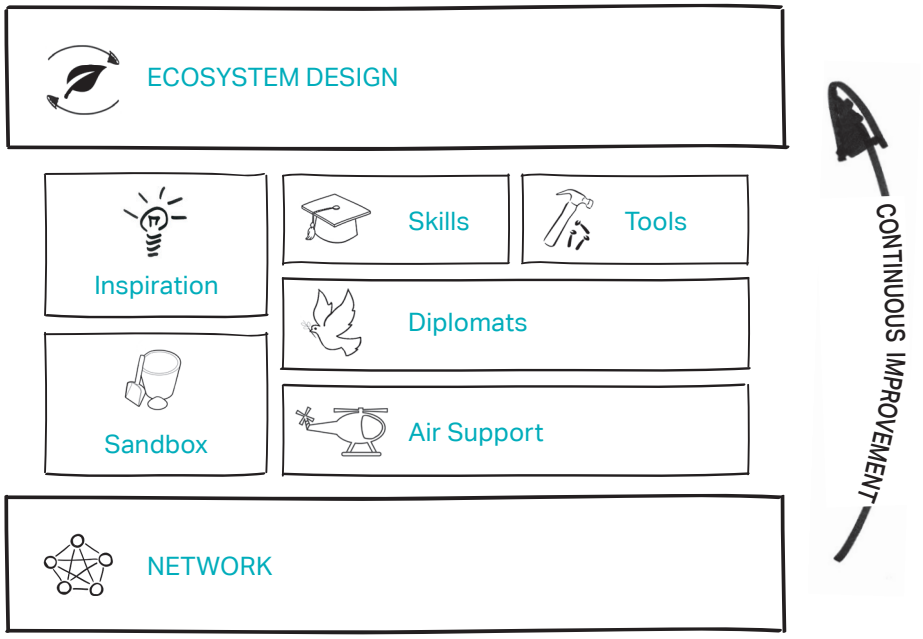
Principle 3: Develop faster, pilot it and learn from that
For the implementation, use agile development techniques, which eliminate wasted time and resources. Typically, startups create Minimum Viable Products that are tested by customers. If the feedback reveals that the idea is wrong, startups either revise them or convert them into new hypotheses. Once a model is proven, they implement the solution (employing agile techniques). Each stage of development is iterative: A startup will probably fail several times before finding the right approach. Learning from failures, or even celebrating them, supports the mindset to soon become successful.

Tool example – concierge tests: they allow a few customers to test a pilot product for a certain time. Ask questions at the end of the testing period, such as »Does the solution solve a real customer problem?« or »What is the minimum feature set required to implement a solution?« You will learn what your customers expect and if they are the right target group.

1–2–3: Build, measure, learn

The process of product development can be simplified and described in three phases. To summarize them: In the »Build« phase, the ideas are turned into proposition of the products or services (hypothesis). The »Measure« phase tests the hypothesis and potential cus- ►

A supportive infrastructure to be successful



Source: Nick.Norena@TriKro.com

tomers and users are asked for feedback (customer's voice). In the »Learn« phase, we decide whether to pivot or adhere to the solution. For pilot development, agile techniques are preferred because they are fast and flexible during implementation.

Innovation ecosystem

The approach itself it is not enough to be really successful; a supportive infrastructure is essential. There are at least seven key success factors that need to be implemented and aligned (see the illustration above).

1. Inspiration: everyone who wants to develop something new needs to find the right opportunity and still be inspired.
2. Playground or sandbox: you need a space for creativity in order to create new products and innovate.
3. Skills: to develop new products or processes, one needs to be able to ask customers or investors the right questions. Startups learn such skills in coaching sessions or via networking with experts.
4. Tools: to lower the costs of developments. Use, for example, the facilities of an open-access workshop, like Techshop.
5. Diplomats: those who bring people together and support startups by mentoring or contributing ideas.
6. Investors or air support: people/companies who can support developments with investment capital.
7. Network: a community that inspires and can be learned from.

This ecosystem needs to be continuously improved.

Inspiration for established companies

The Lean Startup development approach Build – Measure – Learn has inspired large organizations, as well, and more and more established enterprises are following this Lean approach by incorporating customers and their experience (UX) into the development of Minimal Viable Products. Pilot solutions are implemented by means of an agile approach, where several iterations, together with customers, are needed to develop right, profitable products. ●