Lean startup

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(Redirected from Lean Startup)

"Lean Startup" is a method for developing businesses and products first proposed in 2011 by Eric Ries. Based on his previous experience working in several US startups, Ries claims that startups can shorten their product development cycles by adopting a combination of business-hypothesis-driven experimentation, iterative product releases, and what he calls "validated learning". Ries' overall claim is that if startups invest their time into iteratively building products or services to meet the needs of early customers, they can reduce the market risks and sidestep the need for large amounts of initial project funding and expensive product launches and failures. [1][2][3][4][5]

Originally developed in 2008 by Eric Ries with high-tech companies in mind, the lean startup philosophy has since been expanded to apply to any individual, team, or company looking to introduce new products or services into the market.[2] Today, the lean startup’s popularity has grown outside of its Silicon Valley birthplace and has spread throughout the world, in large part due to the success of Ries' bestselling book, *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*. [6]

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Background

*Main article: Eric Ries*

Ries developed the idea for the Lean Startup from his experiences as a startup advisor, employee, and founder. [7][8][9] His first startup, Catalyst Recruiting, failed because they did not understand the wants of their target customers, and because they focused too much time and energy on the initial product launch.[10][11] After Catalyst, Ries was a senior software engineer with There, Inc. [10][11] Ries describes There Inc. as a classic example of a Silicon Valley startup with five years of stealth R&D, $40 million in financing, and nearly 200
employees at the time of product launch. Ries claims that despite the many proximate causes for failure, the most important mistake was that the company’s "vision was almost too concrete," making it impossible to see that their product did not accurately represent consumer demand.

Although the lost money differed by orders of magnitude, the failures of There, Inc. and Catalyst Recruiting share similar origins, with Ries stating that "it was working forward from the technology instead of working backward from the business results you’re trying to achieve." Ries began to develop the lean startup philosophy from these experiences, and from others observed by working in the high-tech entrepreneurial world.

**Origins**

The lean startup philosophy is based on lean manufacturing, the streamlined production philosophy developed in the 1980s by Japanese auto manufacturers. The lean manufacturing system considers as waste the expenditure of resources for any goal other than the creation of value for the end customer, and thus a target for elimination. In particular, the system focuses on minimizing inventory throughout the assembly line. Kanban cards are used to signal only when the necessary inputs to production are needed, and in so doing, reduce assembly waste (Inventory) and increase productivity. Additionally, immediate quality control checkpoints can identify mistakes or imperfections during assembly as early as possible to ensure that the least amount of time is expended developing a faulty product. Another primary focus of the lean management system is to maintain close connections with suppliers in order to understand their customers’ desires. In a recent article published in the *Harvard Business Review*, Ries’ mentor Steven G. Blank describes how the lean method also draws its inspiration from the work of people like Ian C. MacMillan and Rita Gunther McGrath who developed a technique called discovery driven planning which was an attempt to bring an entrepreneurial mindset to planning.

In 2008, Ries took the advice of his mentors and developed the idea for the lean startup, using his personal experiences adapting lean management principles to the high-tech startup world. In September 2008, Ries first coined the term on his blog, Startup Lessons Learned, in a post called “The lean startup.”

**Philosophy**

Similar to the precepts of lean management, Ries' lean startup philosophy seeks to eliminate wasteful practices and increase value producing practices during the product development phase so that startups can have a better chance of success without requiring large amounts of outside funding, elaborate business plans, or the perfect product. Ries believes that customer feedback during product development is integral to the lean startup process, and ensures that the producer does not invest time designing features or services that consumers do not want. This is done primarily through two processes, using key performance indicators and a continuous deployment process. Because startups typically cannot afford to have their entire investment depend upon the success of one single product launch, Ries maintains that by releasing a minimum viable product that is not yet finalized, the company can then make use of customer feedback to help further tailor their product to the specific needs of its customers.

The lean startup philosophy pushes web based or tech related startups away from the ideology of their dot-com era predecessors in order to achieve cost-effective production by building a minimal product and gauging
customer feedback. Ries asserts that the "lean has nothing to do with how much money a company raises," rather it has everything to do with assessing the specific demands of consumers and how to meet that demand using the least amount of resources possible.

Definitions

In his blog and book, Ries uses specific terminology relating to the core lean startup principles.

Minimum viable product

A minimum viable product (MVP) is the "version of a new product which allows a team to collect the maximum amount of validated learning about customers with the least effort." The goal of a MVP is to test fundamental business hypotheses (or leap-of-faith assumptions) and to help entrepreneurs begin the learning process as quickly as possible. As an example, Ries notes that Zappos founder Nick Swinmurn wanted to test the hypothesis that customers were ready and willing to buy shoes online. Instead of building a website and a large database of footwear, Swinmurn approached local shoe stores, took pictures of their inventory, posted the pictures online, bought the shoes from the stores at full price, and sold them directly to customers if they purchased the shoe through his website. Swinmurn deduced that customer demand was present, and Zappos would eventually grow into a billion dollar business based on the model of selling shoes online. See also Pilot experiment.

Continuous deployment

Continuous deployment is a process “whereby all code that is written for an application is immediately deployed into production,” which results in a reduction of cycle times. Ries states that some of the companies he’s worked with deploy new code into production as often as 50 times a day. The phrase was coined by Timothy Fitz, one of Ries’s colleagues and an early engineer at IMVU. See also Continuous delivery.

Split testing

A split or A/B test is an experiment in which "different versions of a product are offered to customers at the same time." The goal of a split test is to observe differences in behavior between the two groups and to measure the impact of each version on an actionable metric. A/B testing can also be performed in serial fashion where a group of users one week may see one version of the product while the next week users see another. This can be criticized in circumstances where external events may influence user behavior one time period but not the other. For example a split test of two ice cream flavors performed in serial during the summer and winter would see a marked decrease in demand during the winter where that decrease is mostly related to the weather and not to the flavor offer.

Actionable metrics

Actionable metrics can lead to informed business decisions and subsequent action. These are in contrast to ‘vanity metrics’ - measurements that give “the rosiest picture possible” but do not accurately reflect the key drivers of a business.
Vanity metrics for one company may be actionable metrics for another. For example, a company specializing in creating web based dashboards for financial markets might view the number of web page views per person as a vanity metric as their revenue is not based on number of page views. However, an online magazine with advertising would view web page views as a key metric as page views are directly correlated to revenue.

Typical examples of a vanity metric are the number of new users gained per day. While a high number of users gained per day seems beneficial to any company, if the cost of acquiring each user through expensive advertising campaigns is significantly higher than the revenue gained per user, then gaining more users could quickly lead to bankruptcy.

Pivot

A pivot is a “structured course correction designed to test a new fundamental hypothesis about the product, strategy, and engine of growth.”[1] A notable example of a company employing the pivot is Groupon; when the company first started, it was an online activism platform called The Point.[4] After receiving almost no traction, the founders opened a WordPress blog and launched their first coupon promotion for a pizzeria located in their building lobby.[4] Although they only received 20 redemptions, the founders realized that their idea was significant, and had successfully empowered people to coordinate group action.[4] Three years later, Groupon would grow into a billion dollar business.

The book

Main article: The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses

Ries' book, The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses, was published in September, 2011 by Crown Business Publishing, which is a subsidiary of Random House.[26] Due to the popularity of the lean startup philosophy prior to the release of his book, The Lean Startup was highly anticipated, and quickly became a #2 New York Times bestseller.[6][27] The book's popularity has helped to further promote the lean startup philosophy, which is used by both startups and more mature companies.[28][29][30] Amazon listed the book as one of their Best Business Books of 2011, and as of June 2012, the book has sold 90,000 copies.[31][32]

The movement

After introducing the concept on his blog, Startup Lessons Learned, Ries' lean startup philosophy became widely popular within Silicon Valley tech startups.[2][6] Ries now sits on many advisory boards for tech companies and investment funds, frequently gives interviews and presentations on the lean startup, and has also created his own annual technology conference called Startup Lessons Learned which has subsequently changed its name to the Lean Startup Conference.[33][2][34][10][26][9][11]

Ries travels constantly to promote the Lean Startup philosophy at conferences, and estimates that Lean Startup meetups in cities around the world garner 20,000 regular participants.[2] The first Lean Startup meetup named Lean Startup Circle was created by Rich Collins on June 26th, 2009[35] hosting speaking events, workshops, and roundtable discussions. As of 2012, there are lean startup meetups in over 100 cities and 17 countries as well as an online discussion forum with over 5500 members.[37] Third-party organizers have led Lean Startup
meetups in San Francisco, Chicago, Boston, Austin, Beijing, China, Dublin, Ireland, and Rio de Janeiro, Brazil, among others—many of which are personally attended by Ries—with the New York City Lean Startup Meetup attracting over 2,500 members. Ries hosted the Lean Startup Track at SXSW 2012 with Dave McClure, Steve Blank, Robert Scoble, and dozens of other entrepreneurs and investors. The Lean Startup Machine created a new spin on the Lean Startup meetups by having attendees start a new company in three-days[46]. As of 2012, the Lean Startup Machine has created over 600 new startups this way.

Several prominent high-tech companies have begun to publicly employ the Lean Startup philosophy, including Intuit, Dropbox, Wealthfront, Votizen, Aardvark, and Grockit. The Lean Startup principles are also taught in classes at Harvard Business School and are implemented in municipal governments through Code for America.

In addition, the United States Government has recently begun to employ many of the lean startup ideas pioneered by Ries. The Federal Chief Information Officer of the United States, Steven VanRoekel noted that he is taking a "lean-startup approach to government." Ries has also worked with the former and current Chief Technology Officers of the United States—Aneesh Chopra and Todd Park respectively—to implement aspects of the lean startup model into the United States Government. In particular, Park noted that in order to understand customer demand, the Department of Health and Human Services, recognized "the need to rapidly prototype solutions, engage customers in those solutions as soon as possible, and then quickly and repeatedly iterate those solutions based on working with customers." In May 2012, Ries and The White House announced the Presidential Innovation Fellows program, which brings together top citizen innovators and government officials to work on high-level projects and deliver measurable results in six months.

Portfolio.com called 2011 "the year of the lean startup," and Fast Company noted that the movement is "less about how to make web startups more successful and entrepreneurs richer than it is a fundamental reexamination of how to work in our complicated, faster-moving world." Additionally, The New York Times noted that the Lean Startup is a "fresh approach to creating companies that has attracted much attention in the last year or so among Silicon Valley entrepreneurs, technologists and investors."

Criticism

In one commentators' view, the Lean Startup has become an under-questioned orthodoxy, and they have tried to counterbalance it by pointing out some of its limitations.

Some commentators have also pointed out that in their opinion the majority of backing for The Lean Startup Methodology is anecdotal and that it has not been rigorously validated yet. Perhaps this is a result of (1) the significant challenges involved in empirically validating the effectiveness of an entrepreneurial framework, given a number of exogenous variables and (2) the difficulty in defining "effectiveness" or "success" when assessing the methodologies value.

IMVU demonstrates some drawbacks of the Lean Startup approach. After 9 years the site is still in beta and does not have a comprehensive working product. This can be attributed to under capitalization due to Lean Startup business policies.

References

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