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THE LEAN STARTUP:

HOW TO FAST-TRACK SUCCESS WITH THE LEAN BUSINESS MODEL

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Abstract

Lean Business Model focuses on a modern approach to building successful businesses efficiently. It advocates for starting small, testing ideas quickly, and continuously learning from feedback to minimize risks and maximize growth. By using principles like validated learning, experimentation, and iterative product development, this model helps entrepreneurs adapt to market needs, reduce costs, and accelerate their path to success. Whether you're launching a new startup or refining an existing business, the Lean Startup method offers a practical, fast-tracked way to achieve sustainable success.

Getting Started

The term ‘startup’ is thrown around a lot, but what exactly is it?

All businesses must start somewhere, but some choose more experimental approaches, like the lean business method, to kickstart a new venture.

So, how do we define a startup, how do you launch a startup and, most importantly, what happens after you start... up?

- **What is a startup business?**

To be clear, the Australian government has no set definition for what encompasses a startup business. There is no one-size-fits-all approach, so while this term cannot be verified, mutual understanding is that a startup is specifically a business or project at the beginning stage of operations. They are also usually financed by their entrepreneurial founders to develop a scalable business model. This differs to small businesses that focus on serving a local market rather than on scaling their business.

While big tech startups like Facebook, Amazon and Netflix are the most well-known, other considerable startup companies in non-tech sectors include Beyond Meat and WeWork. The common factor between these companies is their focus on innovation, usually aiming to improve or provide variations on an existing product or service. Sometimes appropriately labelled as 'disruptors,' they challenge traditional ways of thinking by creating new ways of conducting business.

<u>What Is Lean Startup?</u>

A lean startup is a method used to found a new company or introduce a new product on behalf of an existing company. The lean startup method advocates developing products that consumers have already demonstrated they desire so that a market will already exist as soon as the product is launched. As opposed to developing a product and then hoping that demand will emerge.

Gaging Consumer Interest

By employing lean startup principles, product developers can gauge consumer interest in the product and determine how the product might need to be refined. This process is called validated learning and it can be utilized to avoid the unnecessary use of resources in product creation and development. Through lean startup, if an idea is likely to fail, it will fail quickly and cheaply instead of slowly and expensively, hence the term “fail-fast.”

Lean Startup vs. Traditional Businesses

The lean startup method also differentiates itself from the traditional business model when it comes to hiring. Lean startups hire workers who can learn, adapt, and work quickly while traditional businesses hire workers based on experience and ability. Lean startups also use different financial reporting metrics; instead of focusing on income statements, balance sheets, and cash flow statements, they focus on customer acquisition cost, lifetime customer value, customer churn rate, and how viral their product could be.

Requirements for Lean Startup

The lean startup method considers experimentation to be more valuable than detailed planning. Five-year business plans built around unknowns are considered a waste of time, and customer reaction is paramount.

Instead of business plans, lean startups use a business model based on hypotheses that are tested rapidly. Data does not need to be completed before proceeding; it just needs to be sufficient. When customers do not react as desired, the startup quickly adjusts to limit its losses and return to developing products consumers want. Failure is the rule, not the exception.

Entrepreneurs following this method test their hypotheses by engaging with potential customers, purchasers, and partners to gauge their reactions about product features, pricing, distribution, and customer acquisition. With the information, entrepreneurs make small adjustments called iterations to products, and large adjustments called pivots correct any major concerns. This testing phase might result in changing the target customer or modifying the product to better serve the current target customer.

The lean startup method first identifies a problem that needs to be solved. It then develops a minimum viable product or the smallest form of the product that allows entrepreneurs to introduce it to potential customers for feedback. This method is faster and less expensive than developing the final product for testing and reduces the risk that startups face by decreasing their typical high failure rate. Lean startup redefines a startup as an organization that is searching for a scalable business model, not one that has an existing business plan that it is determined to execute.

Example of Lean Startup

For example, a healthy meal delivery service that is targeting busy, single 20-somethings in urban areas might learn that it has a better market in 30-something affluent mothers of newborns in the suburbs. The company might then change its delivery schedule and the types of foods it serves to provide optimal nutrition for new mothers. It might also add on options for meals for spouses or partners and other children in the household.

The lean startup method is not to be used exclusively by startups. Companies such as General Electric, Qualcomm, and Intuit have all used the lean startup method; GE used the method to develop a new battery for use by cell phone companies in developing countries where electricity is unreliable.

I. How To Start A Startup

Launching your own business sounds daunting. Understandably so, as there are so many aspects and processes to consider, including:

- write a business plan
- pitch to investors
- assemble a rockstar team
- sell, sell, sell!

Not to mention a probable setback at some point throughout the journey that will either make or break your business. With everything entrepreneurs and business owners have to do, it is no surprise that research shows that 11 out of 12 startups fail.

To have the best chance of success, smart entrepreneurs use the lean startup method. Originally developed by Eric Ries, the lean methodology aims to streamline the startup process by focusing on experimentation rather than elaborate planning. In particular, the method advocates experimenting and developing products that consumers have already expressed an interest in to ensure there's existing demand for them.

One way to do this is by developing a minimal viable product (MVP). MVP is a version of the product with just enough features to be usable by early adopters. The benefit of this, as the lean startup method states, is that you avoid unnecessary planning and work by further developing the product based on customer feedback early on. This is highlighted in the 'learn feedback loop', a main principle of the lean startup method.

II. The 5 Principles Of The Lean Startup Method

1. Entrepreneurs are everywhere

"You don't have to work in a garage to be in a startup." – Eric Ries

The common narrative of an underdog team working tirelessly in their garage to develop an innovative new product that you see in the movies is misleading. Ries defines the concept of a startup as a human institution designed to create new products and services under conditions of extreme uncertainty. This means entrepreneurs and developers can be situated in a company of any size, established or not, and in any industry. Thankfully, the lean startup method can be utilised in any of these scenarios.

2. Entrepreneurship is management

Like any business venture, entrepreneurship needs solid management, but a startup won't necessarily benefit from traditional management processes.

Leading your own startup, you'll need to manage and organise your enterprise or business to effectively handle risks, investors and product experimentation. Just remember, whatever management style you implement should specifically respond to the needs and direction of the business.

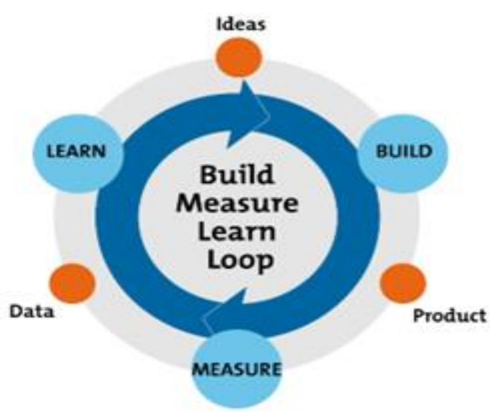
"I believe 'entrepreneur' should be considered a job title in all modern companies that depend on innovation for their future growth." – Eric Ries

3. Validated learning

Validated learning encompasses the evidence-based and actionable lean startup process. This entire process of learning and developing as a startup needs to be validated by gathering quantifiable data, such as revenue and user engagement. To be successful, a lean startup uses this information to facilitate genuine improvements and eventually become sustainable.

4. Build – measure – learn

Also known as the feedback loop, 'build measure learn' is one of the central principles of the lean startup method. It highlights a sound way to establish and continually improve on a product idea within the early stages of development, while saving time and resources.



Put into practice, the model involves a cycle of creating and testing to gain customer feedback. The cycle doesn't end when the product is released. This principle aims to continuously develop and improve an offering by listening to your customers and delivering exactly what they want.

5. Innovation accounting

Accountability is key. As much as you love the fun stuff (coming up with new ideas), to be successful, you also need to focus on the boring stuff: how to measure progress, milestones and performance indicators, and how to prioritise work. A standard accounting model won't work in these instances – a new accounting model for startups is required as well as people who will hold them accountable.

The Six Principles of Lean Business Practices

A lean business offers customers high-value products through continuous improvement and is committed to creating an efficient workforce. Here are the six lean principles that help realise these goals.

1. Understand the Buyer's Sentiments

The first principle of lean business practices is that the organisation must become customer-centric. It involves understanding the target audience before offering products and services. It ensures that the goods sold are created to satisfy their needs and solve existing problems or pain points. Manufacturing goods without identifying the likes, needs and preferences of buyers will lead to the creation of unwanted products with no demand in the marketplace.

Understanding the buyer's sentiment is an ongoing activity and must be undertaken before executing a new launch or alteration in the existing products. The new ideas must be tested with the help of focus group discussions to evaluate their feasibility and gain customer feedback. It helps create products that will resonate with the buyers and fly off the shelves immediately.

2. Eliminate Waste from Existing Processes

With the feeling of eco-consciousness rising in the population, there is an increased pull towards the establishment of a circular economy. It emphasises the reduction of waste by optimising production and workflow. For example, many companies are adopting automation to replace time-consuming manual tasks, such as accounting and inventory management.

Entrepreneurs who purchase businesses for sale in Sunshine Coast must adhere to this principle to reduce expenses and improve efficiency. It requires conducting a SWOT analysis and eliminating processes that are not fruitful or too expensive. It helps to find cheaper alternatives that do not compromise quality.

3. Making Improvements to Processes

Lean principles emphasise offering value to the customers by making every step in the process efficient. Thus, the removal of waste does not help in improvement. It can be achieved by identifying problem areas that are reducing efficacy. For example, an unskilled workforce or an outdated technology can affect the results significantly.

Thus, entrepreneurs must keep innovating and advancing their processes to remove bottlenecks. It helps to get organised and streamline the workflow by anticipating roadblocks and overcoming them effectively. It includes resolving issues at the earliest to maintain productivity.

4. Train Your Team in Standardised Processes

Businesses cannot become lean unless the workforce has understood the new systems. They must be trained to deliver better performance with the help of skills and tools that help them evolve. They must be coached and guided to follow the standardised operating procedures that must be maintained.

In addition, there should be a constant focus on collaboration and coordination to increase inclusivity and teamwork. It helps to build a loyal workforce that is committed to achieving the business goals. Entrepreneurs who purchase a business for sale Sunshine Coast must invest in employee training and development to enhance their yield. The workers must help each other grow and learn every day.

5. Follow the Pull System

Traditionally, businesses followed the push approach, where they continued to produce more to sell more. However, if there is no need among the buyers, the surplus products will become worthless. Thus, instead of pushing, entrepreneurs must use the pull principle. It involves producing according to the demand to avoid overproduction.

It ensures the employees are not overburdened and have free time to focus on innovation and development. It saves time and costs incurred by the business and make the production practical and valuable. It increases operational efficiency and creates value streams that can be leveraged for growth. Entrepreneurs can enhance employee satisfaction with this method.

6. Become A Flexible Organisation

It is a known fact that rigidity can lead to the failure of the business. Thus, entrepreneurs looking for business opportunities in Sunshine Coast should maintain flexibility. They must be receptive and identify new trends and ideas quickly to adopt and evolve. Following age-old traditions leads to stagnation and dissatisfaction among customers.

Businesses should have a flexible work system that can accommodate changes without causing massive disruption, even when adopting the latest tech trends. It requires training the employees appropriately and learning continuously to offer something new and original to the buyers. It increases the competitive edge of the business in the marketplace and keeps it relevant for the buyers.

The pillars of a lean business are reducing waste, increasing efficiency, constant improvement and teamwork. Entrepreneurs who wish to build a lean entity must keep them in mind to move forward with agility and competence. All ventures can adopt the principles mentioned above to stay committed to their path to success.

III. The Dropbox Effect: How to Utilize the Lean Startup Methodology

Starting a new business can be scary, but there are many success stories to reference on your journey. For instance, Dropbox utilized the lean startup methodology to go from having no products to becoming an industry standard in only a few years. Since it minimizes expenditures, the lean startup method can ease some of the most concerning aspects of starting a new business, like startup costs, by verifying the value of your product or business early and often. Business owners can even use the lean startup method for companies opening up a new venue of income or switching gears.

The lean startup methodology explained

What exactly is a lean startup? This approach is based on a methodology developed by Eric Ries that helps companies improve decision-making based on iterative product testing, and uses early adopter feedback to determine features and functionalities for a broader market launch. Getting in touch with your customer base early on will allow you to use their input to guide your company as well as give you a relationship to nurture as time goes on. Ries introduced the lean startup concept in his 2011 book, The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Business. The concept for his book, which focuses on the experience he gained through his own failures and lessons, is based on the Japanese work process of vehicle production during World War II.

While intended to get products to customers at a quicker pace, the lean startup method can help your business get up and operating more quickly —

even if your focus isn't manufacturing. The method can help you conserve resources and minimize wasteful practices at a crucial period in your business's trajectory. This can either help keep your losses small if your venture fails or give you a financial cushion if your business thrives. Its focus on constant experimentation can safeguard your company from going stagnant.

The approach, also known as build-measure-learn, is based on lean manufacturing principles, such as those promoted by the Lean Enterprise Institute, that aim to increase customer value while using fewer resources. Most importantly, the lean startup method will help you recognize early on if your enterprise is worth pursuing without wasting resources.

How to utilize the lean startup methodology

Build

In the build phase, companies make a minimum viable product (MVP). This prototype has sufficient core features to interest early adopters whose feedback helps you identify the additional features you'll need to appeal to a wider market. The build phase doesn't have to be an actual product, but can simply be the idea of the product.

How Dropbox did it: Dropbox signed on 5,000 subscribers before it actually had a product to offer. The cloud-based file storage and sharing services company generated sign-ups from a 90-second video that described its services and why people should pay for them.

Measure

The response to your MVP launch determines:

- Whether there is sufficient interest to continue product development
- If there is sufficient interest, what features/functionalities should be added or refined?

How Dropbox did it: A second Dropbox MVP video demonstration generated additional interest, adding 75,000 early adopters in a single day. This was accompanied by a flood of high-quality feedback to make the product as simple to use as possible. They encouraged users to provide comments on Votebox about what they liked or didn't like.

Learn

Based on what you've learned from your early adopters, the next decision point is whether to persevere or pivot. Can you carry on with the same product strategy or do you need to change some aspect of it? Or, do you need to shut down product development entirely?

If early adopters like the MVP, then you can persevere. These are some examples of pivots:

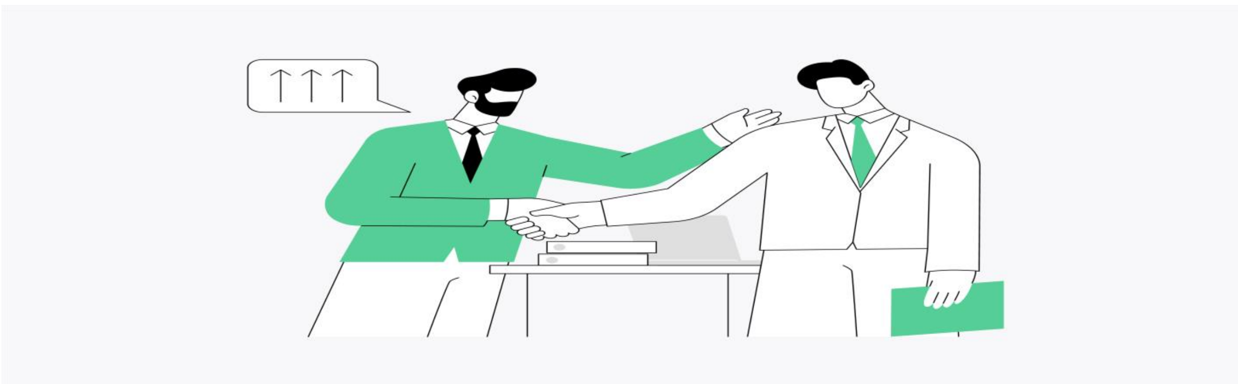
- Other features are discarded in favor of a single feature that becomes the final product.
- The product becomes larger to incorporate missing features or functions.
- You discover that other customer needs are more important to address than what the MVP offered, so it's back to the drawing board.

How Dropbox did it: Enthusiasm among early adopters persuaded Dropbox to persevere. The question then became how to expand beyond the initial user base. The company invested in a variety of online marketing techniques that resulted in excessively high and unprofitable customer acquisition costs. What Dropbox learned was to instead build on the enthusiasm of its user base by offering a two-sided incentive referral program.

Dropbox then offered additional free storage to both new subscribers as well as those who referred users. In 15 months, Dropbox went from 100,000 registered users to 4 million, largely by word-of-mouth referrals. They learned to continue doing what they were doing right in the first place (developing a committed user community and providing it with an influence on product development) and not to worry about more traditional marketing approaches.

- **Benefits of lean methodology**

Lean methodology is often used to make small, sectional changes in the processes to improve efficiency, quality, and speed of the service or product being delivered. It should be used as a long-term approach for continuous improvement, not as a quick fix. With the fast pace of the world, it is important for a business to be able to adapt to the increase in demand as well as be prepared for continuous improvement. Businesses that utilize lean methodology can reap substantial benefits, allowing them a competitive advantage. The benefits of utilizing a lean methodology include:



- Better productivity. Utilizing lean methodology includes the elimination of tasks that do not add value to the customer. For instance, producing unnecessary materials or collecting unused/nonrelative data creates slow systems and wasted time, so removing these tasks from the process will ultimately increase productivity that is more beneficial for the customer.
- Better flexibility and responsiveness. Once the production process is streamlined, your business can better meet customer demands. The business can be in the position that allows customers to come to your business specifically in order to get the product they want and/or need and when the product is available at the time of need.
- Improved product quality. When there are issues with quality, lean methodology provides businesses with the techniques and problem-solving tools that allow them to identify the root cause of the issue. As error proofing is put into place, it can strengthen the process, prevent the problem from recurring and improve the quality of the product.

- No defects. A defect in products means more work, which means money and time wasted, and risks your ability to deliver the finished product on time. The premise behind lean methodology is eliminating defects so that your products are made correctly the first time.
- An increase in the bottom line. When lean methodology is used appropriately, the method can increase productivity and make operations smoother, which ultimately allows your business to make more products with greater flexibility and responsiveness. The end result is creating usable inventory as opposed to stockpiling expensive inventory that may otherwise go to waste; plus, there are fewer defects that almost immediately increase profit. Higher-quality products that are available for customer demand means happier, repeat customers.
- Strong customer relationships. The lean methodology requires early communication from the onset of your business. If those early adopters are satisfied with your product and services, they are likely to become loyal customers. Maintain those relationships and check in with your customers regularly to make sure your business is on track.
- A focus on improvement. Embracing the lean methodology in the early days of your company encourages a mindset of constant innovation and creativity. Regardless of how successful your company becomes, your origins show you a company can always be better in some way. Consider implementing a development team to avoid going stagnant.

Lean methodology is geared toward removing non-value-adding tasks and, instead, focuses on making the remaining value-adding tasks flow more smoothly, without delays, interruptions or defects. When the processes run smoothly throughout the lifecycle of production, the business will deliver high-quality products to customers on time.

IV. What Lean Start-Ups Do Differently

The founders of lean start-ups don't begin with a business plan; they begin with the search for a business model. Only after quick rounds of experimentation and feedback reveal a model that works do lean founders focus on execution.

	Lean	Traditional
Strategy	Business Model Hypothesis-driven	Business Plan Implementation-driven
New-Product Process	Customer Development Get out of the office and test hypotheses	Product Management Prepare offering for market following a linear, step-by-step plan
Engineering	Agile Development Build the product iteratively and incrementally	Agile or Waterfall Development Build the product iteratively, or fully specify the product before building it
Organization	Customer and Agile Development Teams Hire for learning, nimbleness, and speed	Departments by Function Hire for experience and ability to execute
Financial Reporting	Metrics That Matter Customer acquisition cost, lifetime customer value, churn, viralness	Accounting Income statement, balance sheet, cash flow statement
Failure	Expected Fix by iterating on ideas and pivoting away from ones that don't work	Exception Fix by firing executives
Speed	Rapid Operates on good-enough data	Measured Operates on complete data

A lower start-up failure rate could have profound economic consequences. Today the forces of disruption, globalization, and regulation are buffeting the economies of every country. Established industries are rapidly shedding jobs, many of which will never return. Employment growth in the 21st century will have to come from new ventures, so we all have a vested interest in fostering an environment that helps them succeed, grow, and hire more workers. The creation of an innovation economy that's driven by the rapid expansion of start-ups has never been more imperative.

In the past, growth in the number of start-ups was constrained by five factors in addition to the failure rate:

- The high cost of getting the first customer and the even higher cost of getting the product wrong.
- Long technology development cycles.
- The limited number of people with an appetite for the risks inherent in founding or working at a start-up.
- The structure of the venture capital industry, in which a small number of firms each needed to invest big sums in a handful of start-ups to have a chance at significant returns.
- The concentration of real expertise in how to build start-ups, which in the United States was mostly found in pockets on the East and West coasts. (This is less an issue in Europe and other parts of the world, but even overseas there are geographic entrepreneurial hot spots.)

The lean approach reduces the first two constraints by helping new ventures launch products that customers actually want, far more quickly and cheaply than traditional methods, and the third by making start-ups less risky. And it has emerged at a time when other business and technology trends are likewise breaking down the barriers to start-up formation. The combination of all these forces is altering the entrepreneurial landscape.

Today open source software, like GitHub, and cloud services, such as Amazon Web Services, have slashed the cost of software development from millions of dollars to thousands. Hardware start-ups no longer have to build their own factories, since offshore manufacturers are so easily accessible. Indeed, it's become quite common to see young tech companies that practice the lean start-up methodology offer software products that are simply "bits" delivered over the web or hardware that's built in China within weeks of being formed. Consider Roominate, a start-up designed to inspire girls' confidence and interest in science, technology, engineering, and math. Once its founders had finished testing and iterating on the design of their wired dollhouse kit, they sent the specs off to a contract manufacturer in China. Three weeks later the first products arrived.

Lean start-up practices aren't just for young tech ventures. Large companies, such as GE and Intuit, have begun to implement them.

Another important trend is the decentralization of access to financing. Venture capital used to be a tight club of formal firms clustered near Silicon Valley, Boston, and New York. In today's entrepreneurial ecosystem, new super angel funds, smaller than the traditional hundred-million-dollar-sized VC fund, can make early-stage investments. Worldwide, hundreds of accelerators, like Y Combinator and TechStars, have begun to formalize seed investments. And crowdsourcing sites like Kickstarter provide another, more democratic method of financing start-ups.

The instantaneous availability of information is also a boon to today's new ventures. Before the internet, new company founders got advice only as often as they could have coffee with experienced investors or entrepreneurs. Today the biggest challenge is sorting through the overwhelming amount of start-up advice they get. The lean concepts provide a framework that helps you differentiate the good from the bad.

Lean start-up techniques were initially designed to create fast-growing tech ventures. But I believe the concepts are equally valid for creating the Main Street small businesses that make up the bulk of the economy. If the entire universe of small business embraced them, I strongly suspect it would increase growth and efficiency, and have a direct and immediate impact on GDP and employment.

There are signs that this may in fact happen. In 2011 the U.S. National Science Foundation began using lean methods to commercialize basic science research in a program called the Innovation Corps. Eleven universities now teach the methods to hundreds of teams of senior research scientists across the United States.

MBA programs are adopting these techniques, too. For years they taught students to apply large-company approaches—such as accounting methods for tracking revenue and cash flow, and organizational theories about managing—to start-ups. Yet start-ups face completely different issues. Now business schools are realizing that new ventures need their own management tools.

As business schools embrace the distinction between management execution and searching for a business model, they're abandoning the business plan as the template for entrepreneurial education. And the business plan competitions that have been a celebrated part of the MBA experience for over a decade are being replaced by business model competitions. (Harvard Business School became the latest to make this switch, in 2012.) Stanford, Harvard, Berkeley, and Columbia are leading the charge and embracing the lean start-up curriculum. My Lean LaunchPad course for educators is now training over 250 college and university instructors a year.

V. How To Use The Lean Startup Model: A Case Study

One of the most well-known companies to have utilised the lean startup principles for growth is Dropbox, the file hosting and sharing service.

Released in 2008, Dropbox started as a minimal viable product with a screencast demonstrating key features and functionality of the service. This allowed them to test the demand for their product and gain valuable customer feedback that led to further experimentation.

In just 4 years, the innovative tech service gained 100 million registered users and as of 2021 had 700 million registered users, with almost 15.5 million paid users. Dropbox's success, and that of many other startup companies, highlights the importance of using the 5 lean principles and methodology.

VI. Leaning Your Ambitions Forward

As many successful companies have done, centring the customer in your development is essential when using the lean startup method. This means that if you have an idea for a product or service that you think consumers will benefit from, you shouldn't initially resort to a traditional business plan. Start with a minimum viable product and continuously work through the lean principles to determine whether your product is feasible.

And what happens beyond the startup phase? Continue to use the lean startup principles to develop and reiterate your product and service consumers needs shift. It's a long-term process, but one that will reward your business exponentially.

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