ENTREPRENEURSHIP AND LEAN STARTUP. HITTING THE WALL BUT STILL GOING.

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Let’s rock’n’roll

- The magic formula for the success: product + customer + channel
- Lean Startup and its main principles.
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The magic formula for the success: product + customer + channel

Let's go with some definitions first. These are pretty obvious and yet very few people can put them in simple words. **Well, I can:**

- The sale is when you are exchanging something of value that you have on the money another person has.
- The product is exactly that "something of value."
- The customer is that "another person."
- Channel is how you facilitate the sale.
- Business is the process of building the repeated process of the sales through established channels.
- The company is a legal form of organization of the business.

It is all easy, isn't it? Now, all we need is implement the above things. Some ten years and we are there.

It is necessary to mention another word. Profit. You acquire the customer at the reasonable cost (nothing comes for free), and ideally, customers pay you more than that cost (CAC, but we will discuss later). Only then you have a business. That "more" makes the whole difference. Then you repeat and scale the process with hundreds and thousands or millions of the customers. The repeatable process of selling your solution at a profit is called a sustainable business model.

Lean Startup and its main principles.

The whole paradigm of the lean startup is about doing more with less. And doing it faster. After all, the biggest favor your startup can do you (after making you rich of course) is dying fast. This way it will release you for that next start-up that will make you rich **100%.** **So, the faster you can**

- Validate your idea
- Validate your customer
- Validate your product
- Validate your channel

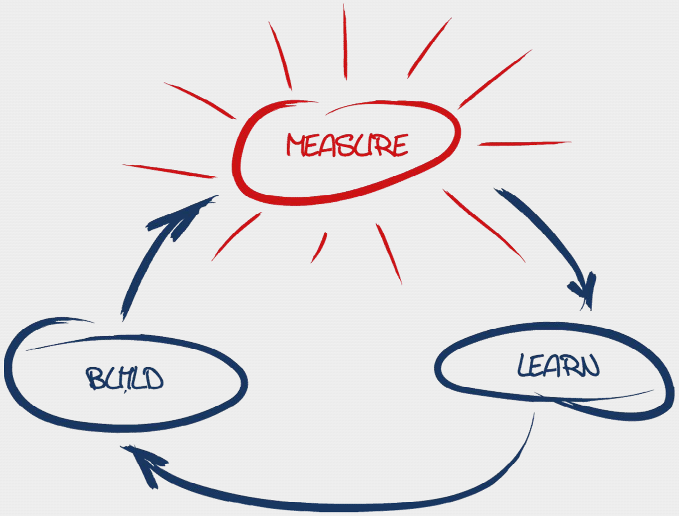
The faster you will either reach the success or accept the failure. You will get something called "validated learning. Even failure leaves you with something priceless. The experience and knowledge. Next time you will be doing better. Plus, as we discussed, the above knowledge should be acquired fast. Faster!

Companies either grow fast or die slowly. The worst thing that can happen to the tech company is becoming a zombie. The company that doesn't die nor grows fast.

Lean startup suggests that you should have a web site by buying a template for **$20** instead of hiring the web studio for **$2k.**

Lean startup suggests that you sell your first product even before it has been written. Or at least you learn if there is a demand for your solution before you are ready to offer the solution.

The whole approach has a lot of potentials even though not working in **100%** cases and will be slowly going off the scene. We will discuss later why. So how exactly you do all this magic? With the help of magic shortenings.



MVP, MVT, MVB, MVM, MVS

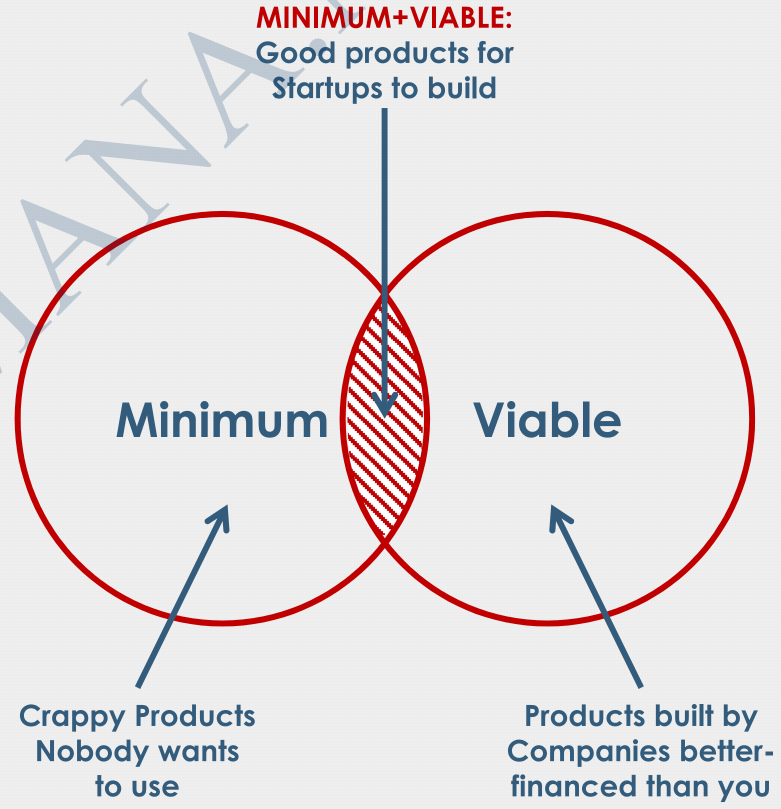
MVP stands for Minimal Viable Product. The idea here is that you should start marketing your product right here and now. Not in one year when you will already spend tens of thousands USD but your competition will throw you off the market, or you find out no one needs your solution.

If your product is written on Basic – there is no need to rewrite it on C# before showing to the limited group of the potential customers. If the product lacks GUI but does its work – you can set it up with the help of the scripts from the command line.

Thinking this way and approaching any single activity in your company from this perspective you can easily come up with the

- Minimum Viable Team
- Minimum Viable Budget
- Minimum Viable Marketing/Management
- Minimum Viable Sales

Exactly "doing more with less." And while sometimes you cannot achieve the full result without heavily investing money or time very often you can.



Customer development

Before even starting thinking about the product development we should know whom we are going to be addressing with the product.

We are trying to determine

- The industry
- The vertical
- Business need
- Typical scenarios

And we will be looking for the answers on these questions

- Who is the potential customer?
- What group of people? Is it big enough for our business to scale later on?
- What business problem they have?
- Is this problem real and repeatable?
- Is it severe enough for them to consider spending money on our solution?
- How they address this problem right now?
- Would they welcome our approach to addressing it?

It is important to limit a scope of our product. There is no one size that fits all, and your solution is not a **$100** to be liked by everybody. You need to describe your customer – make the customer portrait or if you have different groups of the customers – several portraits.

Initially talking to the customers is **100%** assignment of the founders. Only when the customer is known, the product is introduced to the market and marketing channels are working you will be scaling the process by hiring the sales and marketing people. But even then, you will need the channel for the feedback to react fast on the changes in the competitive environment. Nokia didn't realize the change in mobile paradigms and missed smartphones era, and it cost them business.

It is also important to create the group of dedicated customers that will be serving as beta-testers. Building the community around the product is one good idea.

Product development

The worst nightmare would be having R&D develop a product that no one needs. That's why we start with Customer development process. When we know our customers and their needs we most likely know what kind of a solution they would be welcoming.

Product company is called product company for a reason. The product is a heart of your business. Just like heart cannot function in the vacuum and requires a whole body, a good product is not enough and cannot guarantee a success alone. The absence of the good product or corrupted product though will most certainly destroy the startup. The body cannot function without the heart. Period.

How exactly we develop the product for the market? The most popular approach nowadays would be Agile. Means we do an endless number of iterations making sure on each the product is workable and marginal improvements didn't result in a broken solution.

The typical iteration is

- Idea
- Validation
- Execution
- Feedback

And from the beginning. That's a lean startup approach.

We should avoid unnecessary optimization and perfectionism, when we have the endless development and our R&D finalizes version 5 of the product while the customer still has version 1.

Channel development

In this case, we are not talking about 1-tier or 2-tier distribution model. By channel, we mean delivery network. How exactly you will be engaging with the customers. Sometimes, by the way, your channel will be exactly 1,2-tier channels. You will offload sales to the partners, distributors or VARs. But still, you will be doing marketing activities and generate the leads. **So, we need to answer these questions:**

- Where are we going to take the leads for our solution?
- Will there be single or multiple channels?
- What is the cost associated with the lead generation activities for each channel? CAC.
- What sales model will you be executing?
- What is the sales cycle for your solution?
- What is LTV (CLV) for your customer?
- Do you have the recurring revenue streams? Will you be selling a license or use subscription model (SaaS)?
- How your business is scaling through this or that delivery network?

These are the main questions. There can be more, or they can be different based on the nature of the product and your customer portrait. Basic approach will be the traditional one for the Lean Startup.

- Build
- Measure
- Learn

Or in greater detail:

- Split your customers into groups,
- Define channels for each
- Measure and Validate (split-tests etc.)
- Chose effective ones
- Keep doing

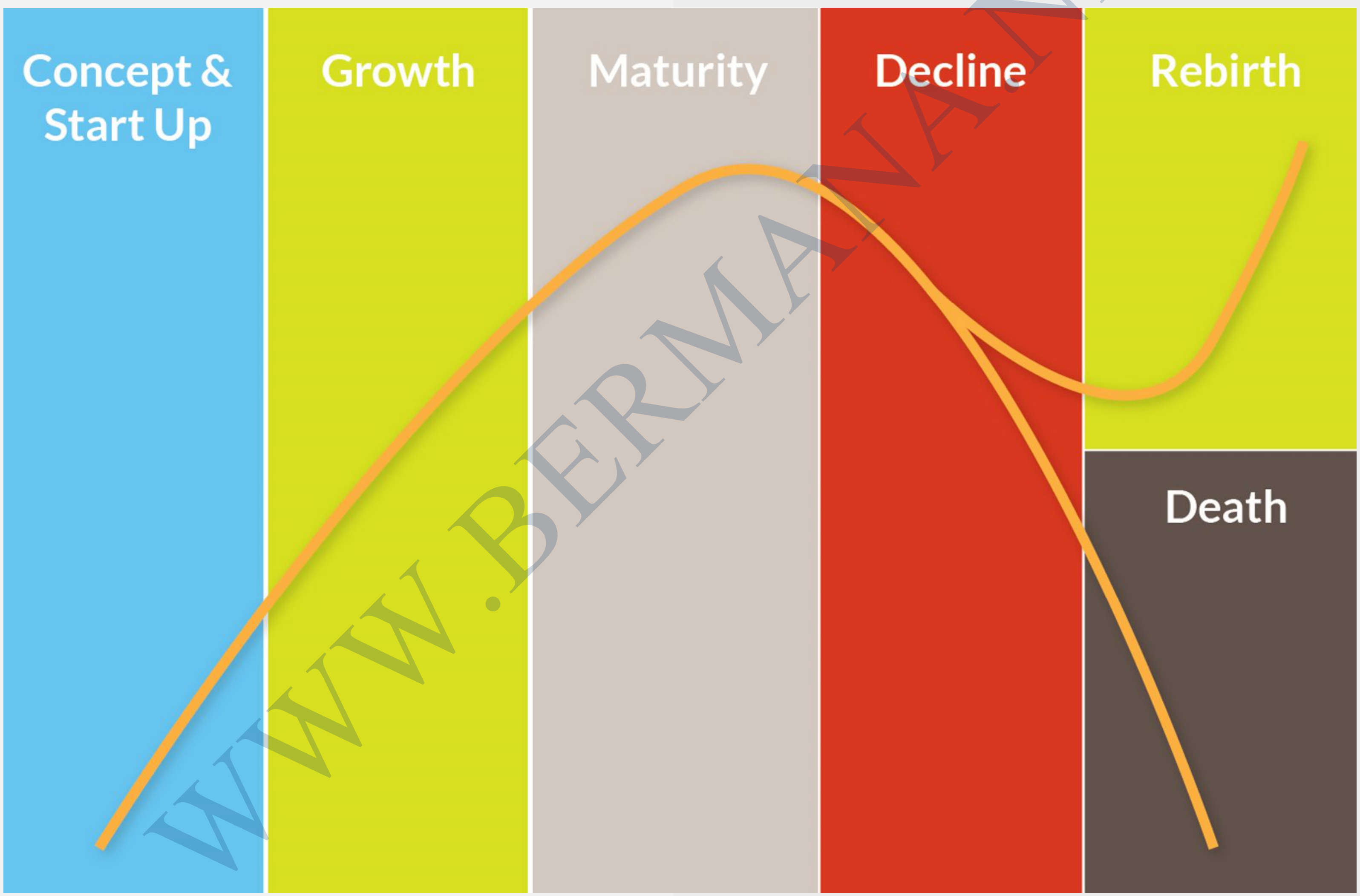
Lean startup is dead… And still going

Lean startup as an approach, while sometimes only now reaching some communities, is in danger nowadays. There are more and more situations where you cannot start with the MVP that was produced in a matter of days in a garage for **$500**. **There are several reasons for that:**

- Big corporations are learned their lessons, and they are promoting Intrapreneurship and trying to be on top of the new trends and technologies. With their budgets, their MVP look more like a sophisticated commercial solution.
- The market of cheap Internet services, Social networks and alike businesses (these that you can start cheap and lean) is overcrowded, while niches and markets, where most traction will happen in the future, like biotech, IoT or VR require much more significant upfront investments. Say to have MVP of the transportation vacuum loop you need…. To build transportation vacuum loop. Even if a model.
- Customers are used to well-polished commercial products and less keen to experiment with the MVPs.
- Some (emerging) industries just won't allow MVPs. Imagine MVP of the heart's rhythm driver… Can I have a commercial version instead?

Nevertheless, the idea of "achieving more with less fast" is very appealing and even if the whole business cannot be built based on the Lean Startup principles its components can very well absorb the philosophy.

Every fruit has its time. Stages of the lifecycle of the company and its implications.



Every fruit has its time. Stages of the lifecycle of the company and its implications.

It is important to remember about the theory of the company's Lifecycle. Accordingly, to this theory, we can define these stages:

- Startup
- Growth
- Maturity
- Decline
- Rebirth/Death

Lean Startup is tailored mostly for start-up stage (surprise). Each stage requires its approaches to almost every aspect of the company's life. Let's just briefly discuss most important

	STARTUP	GROWTH	MATURITY	DECLINE/REBIRTH
Founder's role (CEO)	Crucial. One of the very few employees	Hands-on, building and running the processes	Delegation, looking for M&A opportunities	Leader of Intrapreneurship, managing board, and partnerships and looks for exit opportunities
Marketing	Understanding the channels that work	Effective utilizing of the channels, guerilla marketing	We have budgets. Commercial marketing	Depending on the strategy
Finances	Bootstrapping	VC or rapid organic growth	Healthy margins, accumulating of the funds	Costs cutting
R&D	Product development	Agile development	Adding features, improving quality	Launching new products
Overall strategy	Lean Startup	Scaling	Defending	Intrapreneurship, Finding the new markets, products or exit opportunities

Core competencies and supporting activities

With the purpose to find a most effective approach to each company's activity, you need to understand what activities are critical for the business and what activities are add-ons. This way you can understand where and when you can save and in contrary where and when you should invest to speed up the growth.

Furthermore, you can outsource the number of supporting activities to the third-parties and concentrate on the core activities. Based on your business it can be a different mix.
For instance:

Core activities: R&D, QA

Supporting activities: Marketing, Sales, Finances, Logistics, Web site maintenance

or

Core activities: R&D, QA, Sales, Marketing

Supporting activities: Finances, Logistics, Web site maintenance

Most certainly the set may change with time. For instance, as a startup, you can outsource financial activities, and you do not need a CFO but as a mature company CFO can be a critical member of the team.

Communication lines

Communications between departments should work well. Just imagine what may happen if Sales and Marketing people don't know what has been released in the R&D lately. Or Sales people don't know that marketing department has published new PR or promotion action? Or R&D don't get any feedback from sales? Or Finances don't know they need to buy a new set of servers?

Well, I can imagine these situations well as I have been in many of these. That's why I learned that the communication is everything.

As a matter of fact it is relatedly easy to organize the communication between the departments in the company nowadays. **It is just three steps**

- Choosing the automation tool
- Preparing the workflows
- Executing those workflows in the future

In our company, we are using slack and very satisfied with the results. There are many other collaborating packages out there.

COMMUNICATION
LINES

Hire or fire? And when?

The new approach to the HR called “soft HR” replaces old approach called “hard HR.” The previous concept was suggesting that people are instrumental to the tasks and you should treat people as a tool, a cost center that helps you achieve your goals. The new approach says that people are an asset to the company and they are rather a revenue center. It is very much so for any IT startup. Apart from the legal patents and code (that normally is dead without the programmers who write it), people are the only real asset of your business.

When VC invests into the company, they invest in the people. The famous phrase says that companies with the weak business model but with the great team will succeed through the number of pivots while the companies with the great product but the corrupted team will fail on its way to success.

Hiring right people at the right time is another art you will be learning. Preliminary hire increases the overheads while delayed hire brackets the growth. The general rule is: you are looking for the right person to fulfill the position, not the position for the right person.

Corporate culture. Why should you care?

It sounds like something from another world: the corporate culture… After all, we are all adults, and we are all in this business to make money. What is this culture thing? It turns out this thing affects almost every aspect of the company's life and can be a matter of survival for the company. Especially during the difficult times of the bootstrapping and crisis. The culture has to do with the values, politics, motivation, mission, relationship within the company. Is the overall atmosphere healthy or toxic? Do people support each other or do the finger-pointing? What is the price of the mistake? Bullying? Sexual harassment and other things. There also covered by the culture of the corporation.

At some point, you will see that you do not hire or want to fire that or another person just because he or she doesn't fit your organization and creates the toxic atmosphere even though this very person can perform well and is more than OK as a professional.

Cash is the king. Burning

What does it mean when the company has a burn? Means company earns less than spends. Is it bad? Depends. It is very bad when the economy of the deal is bad, and the magic formula doesn't work. It is normal if you are to spend more money on the marketing to speed up the growth.

- If the burn is the result of the extensive overheads, it is always bad.
- If the burn exists because of the temporarily increased marketing expenses, it can be ok and even expected.

Some companies have the burn all their history up to the moment of the successful exit. What is the main danger of the burn anyways? Well, the company can run out of the cash and then not important what other positive metrics it demonstrates the company will be bankrupt.

It is important to note that the burn is always a cash term. So even if revenue is growing and current assets look good but cash conversion cycle is long the company may run out of cash and cease to exist.

Monitoring the situation with the cash is the main responsibility of the founder (or financial department on the later stages) and finding the cash for the business is the main responsibility of the founder. Unfortunately, you cannot pay the salary with revenue or growth. Only with cash.

CAC, CRC, CLV

- CAC stands for Customer Acquisition Cost
- CRC stands for Customer Retention Cost
- CLV(LTV) stands for Customer Lifetime Value

To build a successful company, you need just one thing. A formula

CAC + CRC < CLV

SHOULD WORK. And you need to make sure the formula

n*(CAC + CRC) < n*CLV

STILL WORKS. Which means you can scale your business well. Make sure you calculate CAC with all the overheads here. That's easy, isn't it? Now, let's dig deeper.

Putting it into the words, you would get something like "the economy within a unit should be positive and should keep positive when you are scaling."

The first part of the phrase says that you must earn from the unit more than you spend on producing and selling the unit. The second part of the phrase suggests that you should scale the success not a failure and maintain it ongoing. Even though for the sake of speeding up the growth you can have a burn for some (un)limited period.

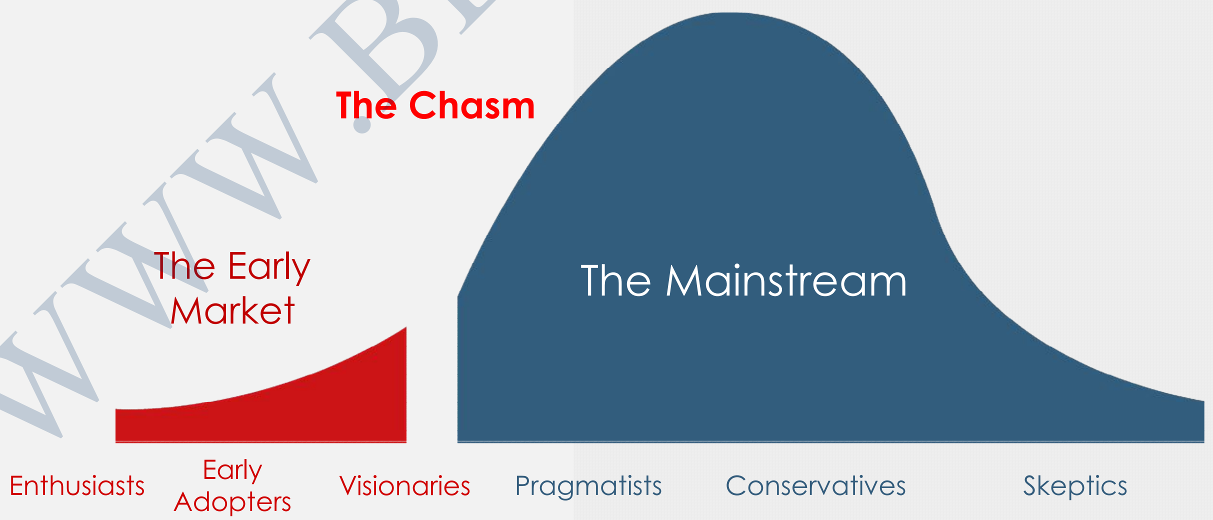
When is it time to scale?

"Crossing the chasm" by Geoffrey Moore is one good book about this question. When and how you are moving from early adopters to early and then majority?

You have success with your startup. Beware. When you are going to mass market the portrait of your customer changes completely. You need to quickly reconfirm the customer and product. And only then, when the economy of the unit is good, you are right on track with the customer and product and know what marketing channels work for you and at what cost. Then you start scaling. Moving from the Startup stage to the Growth stage on the company's lifecycle lah

The main idea is that you are scaling is success not a failure. Another challenge would be not to lose this advantage and keep the positive economy even on large numbers of the items sold. Utilizing different marketing channels, you will you need cohort analysis to understand which channels work well and which you should avoid.

You should remember that scaling introduces not only increase in marketing expenses but also in the overheads and you should keep close eye on the economy of your business because sometimes the business that proven itself to be working on small number of sales just doesn't scale well.

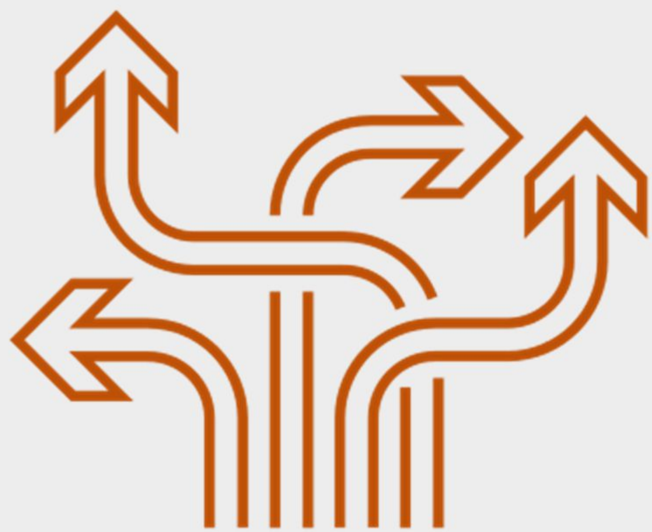


Pivot or not pivot and when pivot?

"Insane would be keep doing the same thing expecting the different result" Einstein. Pivot is a natural component of the evolution of your business. It is very rare that business finds ideal combination of product, channel and marketing message right from the beginning. Normally you will be adjusting your business as time goes by and as you are getting new validated learning and improve your understanding y of your customer. The pivot is whatever change in your business. Can be a change in the market, niche, in the product, in the marketing.

This way business does pivots all the time during its developments. Some pivots are minor and can be considered marginal improvements. Some pivots are serious and change the entire business.

Consequently, sometimes you're just making the decision about the pivot and sometimes you need to call a board and get the approval of your idea. Just like sometimes pivot does not increase your expenses and sometimes you will be needing the new VC round to support the initiative.



Intrapreneurship

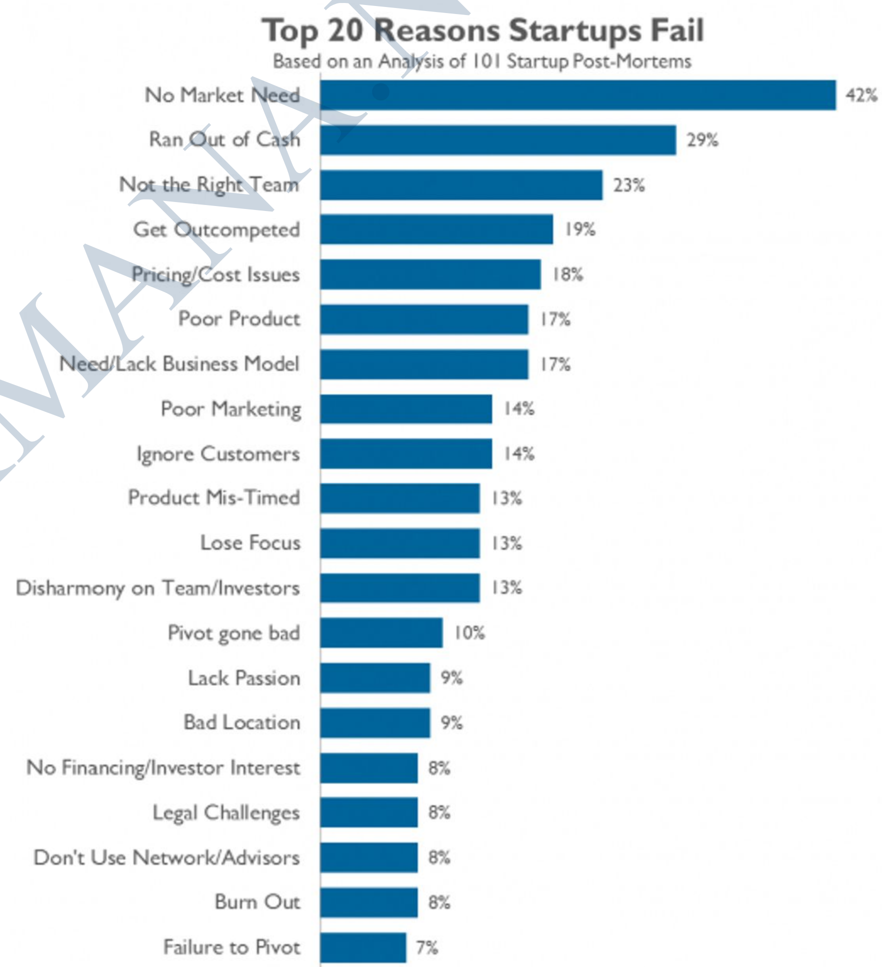
When you successfully passed the most trouble some period of startup and company grows well or even dominates its marketplace, do not forget about creativeness and danger of new entrants that bring disruptive technologies. Be the one yourself. Make sure you have some department where guys with pizza and Coca-Cola having great time spending corporate money on something that not directly results any revenue for your now established business right now.

This “something: they are creating maybe the tomorrow of your business. Without them that tomorrow can be the tomorrow without your business.

Most typical errors

There are hundred ways to failure and just one way to reach the success. Based on the materials we can easily build the list of most typical errors each of which can cost you a **business**:

- Not having a team
- Writing the product that never was validated
- CAC that exceeds the CLV
- Preliminary scaling
- Not caring properly about the cash
- Hesitating with pivot
- Having toxic atmosphere in the team
- Not having clear communications lines



About lecturer

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Art Berman is a successful serial entrepreneur who has founded a number of companies in the technology industry. Mr. Berman brings more than a decade of entrepreneurial experience building and advising successful software companies. Art has managed worldwide online sales and operations since 2003. Mr. Berman earned his Bachelor degree in Economics from Moscow International Business Institute in 1997 and Executive MBA in Edinburgh Business School - Heriott-Watt University in 2014.

Thank you!

Questions