

The Lean Startup by Eric Ries | Book Summary by Paul Minors

INTRODUCTION

Who is this book for

The Lean Startup defines a scientific methodology for running startups and launching new products. This new approach has been adopted around the world within startups and established organisations. Regardless of your role or company size, this is a must-read for entrepreneurs, marketers, developers and business leaders.

About the author

The Lean Startup, New York Times bestseller is written by Eric Ries. Ries himself is an entrepreneur and drawing on principles from this book, he created the *Lean Startup Methodology*, this has become much larger than the book itself and has turned into an international movement. Currently living in San Francisco with his wife and two children, Ries has been a pivotal part of numerous startups and has a wealth of knowledge on the subject.

In this summary

The Lean Startup is organised into three key parts, this summary will summarise each section. In 'Vision' Ries defines what an entrepreneur and startup actually are and articulates a new way for startups to measure their progress called 'validated learning'. 'Steer' dives into the methodology of the build-measure-learn feedback loop. And in 'Accelerate' the book explores techniques to speed up the 'Steer' process and growth methods.

BOOK SUMMARY

KEY PRINCIPLES OF THE LEAN STARTUP

- **Entrepreneurs are everywhere.** Ries emphasises the fact that principles of entrepreneurship can be applied to any industry, any business size, and any role. There's no single definition of an entrepreneur and you don't even need to be a founder. Break the stereotype.

"Entrepreneurs are everywhere. They're in large established organisations as well as small startups."

- A big part of entrepreneurship is **management**. In order to run a successful startup, you need to be an effective manager, there will be so many different tasks and people that will need to be managed.
- Startups are just as relevant as a business as they are as a **learning** experiment. It's not all about making dollars and creating physical products. The learning experience is just as important and expressed through multiple experiments carried out in order to reach a final product. It's about the journey, not the destination.

"A startup is a human institution designed to create a new product or service under conditions of extreme uncertainty."

- **Build-measure-learn.** Ries explains that in order to achieve the key goal of a startup: Build - transforming an idea into a product. Measure - you need to be able to take customers reactions, measure, and learn from the results. Are you on the right track or not?
- **Innovative accounting.** Ries acknowledges that startups need a specialised accounting system, it's not going to be the same as a well-established, successful business. Progress needs to be measured correctly with the aim of reaching goals. In the beginning, it's less about using money as a defining characteristic of progress.

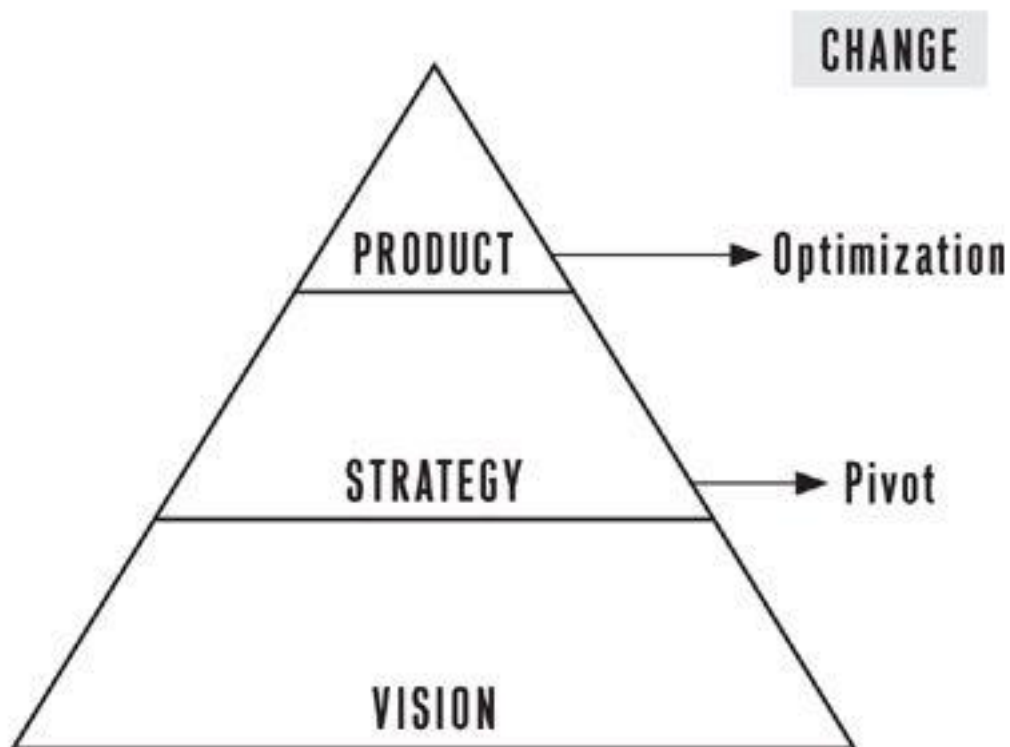
VISION

Where to start

Ries was inspired by lean manufacturing and the concept of JIT (just-in-time) inventory management when he dubbed his idea the Lean Startup. He looked at smaller batch sizes and accelerated cycle times and adapted these ideas into entrepreneurship principles.

The three things you need to define in order to follow Ries' Lean Startup are: the vision, the strategy required to reach the vision and the product which should define the strategy. Keep in mind that the strategy will be constantly changing in times when a pivot is required or you need to persevere. Similarly, you'll find that the product is continuously adapted and updated to meet the strategy expectations.

In the Lean Start Up, Ries aims to explain exactly how you can successfully run a startup. He wants you to be able to apply the build-measure-learn concept to be constantly adapting and improving your business based on evidence rather than assumptions.



Why learning is important

"If the fundamental goal of entrepreneurship is to engage in organisation building under conditions of extreme uncertainty, its most vital function is learning."

Ries explains that the act of understanding what aspects of our products and strategies are functioning well, and which are failing is one of the most important learning curves a business faces. This learning process allows us to adapt and update, improving upon both products and service. Without the learning aspect, you would never reach your end goal. By demonstrating the ability to learn, a startup will have a brighter future and better prospects.

Sometimes, hard lessons will be learned. You'll discover that some of your efforts are completely wasteful and not doing any good. But, you'll also figure out exactly what efforts are working and creating the value.

Experimenting is extremely beneficial

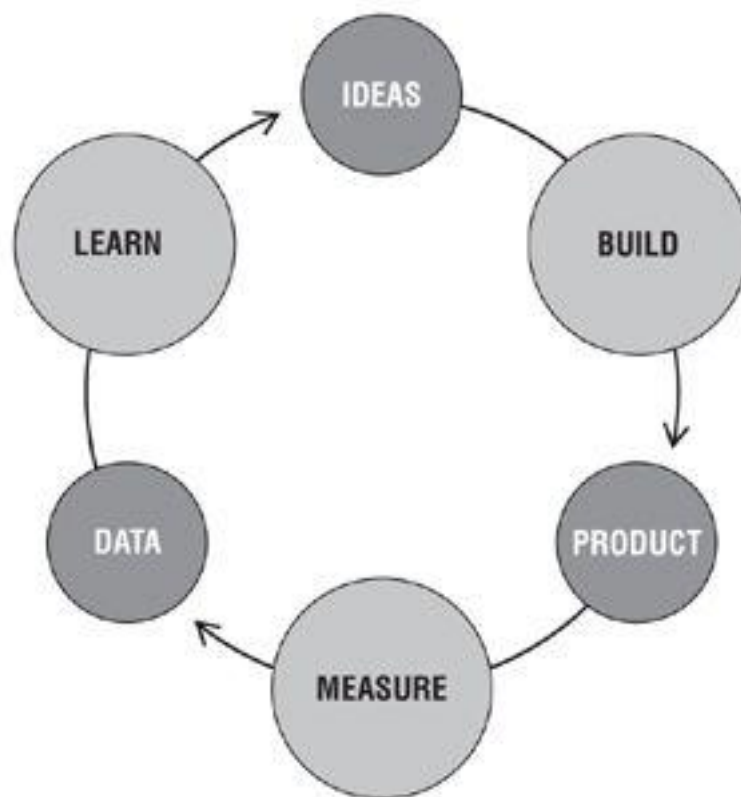
Ries explains that startups following the Lean Startup method will find themselves relying heavily on experiments following a scientific method. In order to truly learn about your product and strategies, a startup should begin with a prediction or hypothesis. This is a simple assumption about what you think will happen. Then, by carrying out tests, a startup will be able to either prove or disprove the validity of the products or service.

Ries explains that this also goes beyond simple surveys. It's easy for someone to fill out a survey and not truly know the consequences or the outcomes. If you can set up a real-life test with real products and services you will find yourself a lot closer to truly testing your predictions and learning from the experiment.

STEER

As we saw in Part One, the products a startup builds are really experiments; the learning about how to build a sustainable business is the outcome of those experiments. For startups, that information is much more important than dollars, awards, or mentions in the press, because it can influence and reshape the next set of ideas.

BUILD-MEASURE-LEARN FEEDBACK LOOP



Minimize *TOTAL* time through the loop

This Build-Measure-Learn feedback loop is at the core of the Lean Startup model. In Part Two, we will examine it in greater detail.

The leap

Ries' 'leap' is the element of a startup that requires a lot of faith, it's potentially the riskiest move but can generate some incredible results.

"The two most important assumptions are the value hypothesis and the growth hypothesis. These give rise to tuning variables that control a startup's engine of growth."

Ries explains this through the metaphor of an engine. Each time you amend a product or strategy you are essentially revving the startup engine, trying to get it to turn over. And once you reach the moment when the engine turns over and starts running, you can move through the gears.

The value hypothesis is Ries' first-step, its when you need to figure out of your product or service is actually going to create any value. Once you've established the value, the growth hypothesis is a critical aspect of the startup. Ries explains that it's extremely important that the reason behind the growth is completely understood.

The test

Ries explains that once you've established your value and growth hypothesis the next step is to create a minimum viable product (MVP) which is a physical version of your product which will allow you to enter the build phase.

The idea of the MVP is that it will be made in the least amount of time with the last amount of effort. The idea is to get something out there as soon as possible so you can start learning and developing. The MVP may lack certain features but will be a good starting point for future adaptations.

"The MVP is simply the fastest way to get through the Build-Measure-Learn feedback loop with the minimum amount of effort."

Ries uses a few examples from successful companies to demonstrate how a MVP can be used:

- Dropbox created a video to show to future customers which explained the value they planned to provide and outlined the problem they intended to solve.

- Food on the Table (a grocery delivery service) began with just one customer and a chef who would manually purchase the ingredients required. By starting small they were able to experiment with the value and service before rolling it out on a larger scale.

Regardless of MVP's being "low quality" Ries explains that they are a valuable aspect of the Lean Startup and offer a lot of insight into what the customers really want.

How to measure

As far as Ries is concerned, any startup has two jobs:

1. To measure as comprehensively as possible as to its current situation, and to face any truths (no matter good or bad) that experiments reveal.
 - 1.1. To be constantly learning and experiment further as many times as necessary to reach the end goal.

Ries explains that in his experience, a startup believes that they are making their product better. When asked how do they know it's getting better, the answer is always that changes are being made, numbers are up and customers seem to be responding well, therefore, they are on the right track. The response is usually related to hitting milestones, if the numbers increase then progress is being made right? Well, Ries does not agree that this is the best way to track progress. He explains that its very important to understand that the changes made to any product are in direct relation to the results and that the correct lessons are learned from each change.

Innovation accounting

This is where Ries' explains that innovative accounting comes in. It's designed especially for startups who are facing progress questions.

Innovative accounting works by first identifying the baseline. Discovering exactly where the business is currently at and how they are really performing. Secondly, innovation accounting 'tunes the engine'.

"Initiate your experiment to test your value or growth hypothesis. e.g. a company might spend time improving the design of its product to make it easier for new customers to use. This presupposes that the activation rate of

new customers is a driver of growth and that its baseline is lower than the company would like."

Finally, innovative accounting is designed to help a startup decide if they need to pivot or persevere. By examining the data collected you can decide to persevere with the product that you have now proven meets the criteria of the pivot and test the next iteration/assumption.

How is this different?

Ries explains that rather than examining nothing but gross numbers (like total revenue/total customers) innovative accounting involves examining the overall performance of independent customer groups. For example, looking at all new customer sign-ups by month.

Innovative accounting focuses on measuring actionable metrics. In order for a metric to be actionable it must display cause and affect. It also needs to be accessible and easily understood by anyone. Finally, metrics need to be auditable and reliable.

When to persevere and when to adapt/pivot

Ries explains that the real question always comes down to persevering or pivoting. Is the progress that you've made so far enough to prove your original hypothesis or is a change required. If you need a change, then that's where the pivot comes into play. It allows you to test a new hypothesis and go through a similar process.

Ries uses the term startups runway to define the amount of pivoting a startup can make. To measure a runway you can count how many pivots are left to make, how many opportunities there are to make significant changes. Ries measures the runway by pivots or new iterations rather than simply time.

Ries explains the importance of holding regular meetings to discuss the need to pivot or persevere. If you don't do this regularly enough you may be missing opportunities.

Different types of pivots.

A pivot is more than just a simple change. Ries explains that a pivot is designed to be structured and all thought out, designed to test a new hypothesis. It's designed to be a big fundamental shift in focus.

A Zoom-in pivot is what Ries uses to define the situation when a single feature of a product shifts and becomes the focus of the entire product. This often happens when a company begins with a broad focus and realises that only one single feature is what the customers want, so they pivot and focus on that!

The Zoom-out pivot is what you'd expect, the opposite of the zoom-in. When you might initially be focusing on a single feature but realise that it could be just 1 part of an even better whole product.

A customer segment pivot occurs when you realise that the product/service you are creating serves a particular customer group, just not the customer group you expected.

Customer need-pivot is a really good one to do, it usually occurs when you've spent a lot of time examining customer behaviour and you truly understand their problems. Often you've been trying to solve one problem, but you realise that there is a bigger problem they need solved. So you pivot and focus on that instead.

Ries explains that when you need to change from a platform to an application (or the other way) this is called a platform-pivot. He explains that often startups find themselves doing this pivot more than once.

Greggory Moore inspired what Ries calls the business architecture pivot. When a company shifts from the focus on high margin/low volume to low margin/high volume.

A sales channel or distribution channel is the way the customers receive the goods, for example, food sold in a grocery store. A channel-pivot occurs when a company realises that they can sell their product/service better in a different channel to what they initially anticipated.

Ries explains that in some situations, a company will discover a different type of technology that can achieve exactly what they are after, thus prompting a technology-shift.

ACCELERATE

The final part of the book; 'Accelerate' explores techniques to speed up the 'Steer' process and growth methods.

The small-batch approach

Ries explains that a small-batch approach focuses on creating a single finished product very regularly, every couple of seconds even. In comparison, a large-batch approach works on producing and finishing all products all at once at the end of a specified cycle.

There are numerous benefits of using the small-batch approach. Namely, problems can arise and be identified sooner. It's always better to be able to identify a problem as soon as possible so a solution can be worked out. For example, Toyota, the car manufacturers use a small batch approach, they believe that their factories work more optimally in this way.

"In contrast, in the Lean Startup, the goal is not to produce more stuff efficiently. It is to—as quickly as possible—learn how to build a sustainable business."

Sustainable growth

Ries explains that he uses the term sustainable specifically to eliminate the effects of any one-time customer actions that will never transform into a long-term benefit. For example, occasionally businesses may use an advertisement that will instantly get a lot of customers or sign-ups, but not the long-term valuable kind of customers who are in it for the long run.

"Sustainable growth is characterised by one simple rule: New customers come from the actions of past customers."

Ries explains that past customers are able to promote sustainable growth in 4 different ways:

1. Word of mouth
2. Side effects of product use e.g. status symbols
3. Funded advertising
4. Repeat purchase

Ries explains that sustainable growth is an essential component of what he calls 'engines of growth' or 'feedback loops'. Just like an engine, they turn over, and the faster they can turn over, the faster your company will find growth.

The sticky engine of growth

Ries uses the term 'the sticky engine of growth' to describe the process that customers churn through the engine. The churning refers to the number of customers who fall of the bandwagon and reduce or eliminate any engagement with a companies product or service. Ries explains that the goal is to always have the number of new customers considerably outnumbering those that are churning. And if you can achieve this, then your product or service will continue to grow. And the larger the gap between new customers and churned customers, the faster the growth will occur.

The viral engine of growth

Ries uses another engine metaphor to describe the speed of which a companies product or service gains awareness. The goal is to have awareness spread in the same way that a virus spreads to become of epidemic scale. Ries explains that mathematical requirements for a viral campaign of awareness. If only 1 out of 10 customers tells a friend about your product (a viral coefficient of 0.1), you'll find the awareness isn't scalable. If 100 people tell 1 person, you'll have 10 new people. And if only 1 of those tells anyone else you'll be left with 1 new potential customer. And that's where the loop will end. In order for a viral loop to succeed, you need each person to tell at least one other person (a coefficient of 1.0).

The paid engine of growth

Moving away from sustainable and organic growth. Ries explains that paying component. This final engine is entirely reliant on spending money to gain customers. Ries explains that there are two key ways of doing this: a) ensuring that each customer generates more revenue or b) reducing the cost of gaining a new customer.

"Like the other engines, the paid engine of growth is powered by a feedback loop. Each customer pays a certain amount of money for the product over his or her "lifetime" as a customer."

Adapting is necessary

"An adaptive organisation is one that automatically adjusts its process and performance to current conditions."

Ries explains that he believes, every problem that your company may face will have a problem deriving from humans at the root. It may seem like a technical problem but when you look into it, you'll discover that humans are the cause. Ries suggests asking 'why' 5 times in order to truly understand any problem and figure out what needs to be done. Asking 'why' 5 times will help you speed up the problem-solving process.

CONCLUSION

Key Takeaways

- Anyone can be an entrepreneur
- A big part of being an entrepreneur is being a good manager
- You need to be constantly learning. Ensure that whenever a mistake is made, you can learn a lesson from this. Constantly learning means constantly improving.
- Experiments are a critical part of the Lean Startup, experimenting with your product/service is the best way to reach the best possible final product.
- Where possible, carry out real-life examples. Create a simple version of your product and service and see how it is perceived and used in the real world.
- You'll need to learn how to accurately measure your experiments and any successes. It's not always as black and white as simple numbers. Understand the best way to measure your product/service, use innovative accounting.
- Understanding when you need to persevere with a product/service or to pivot and try something new is critical.
- Learn about sustainable growth and how to channel that to best promote and create awareness about your product/service.

Further Reading

The \$100 Startup by Chris Guillebeau has two key themes: freedom and value. Freedom is what we're all looking for, and value is the way to achieve it. The concept of having your own startup is the ultimate form of freedom according to Chris Guillebeau. He discusses different lessons on the road to beginning your own startup. With a focus on small 'micro businesses,' this book has plenty of tips and advice for every step of the journey.

Sprint is written by Jake Knapp with help from John Zeratsky and Braden Kowitz. These three have all been a big part of Google Ventures. Together, they have put together a guide for “solving big problems and testing new ideas in just five days”. You’ll find useful start-up examples including those from Slack and Blue Bottle Coffee. Knapp, Zeratsky and Kowitz have put together a must-read checklist at the back of the book that will assist anyone in this problem-solving, idea-testing journey.

Good to Great by Jim Collins outlines a model for turning a good, average or even a mediocre company into a great one. The book includes a useful model which brings the theory together in a actionable way.

Guidelines is my eBook that summarises the main lessons from 33 of the best-selling self-help books in one place. It is the ultimate book summary; Available as a 80-page ebook and 115-minute audio book. Guidelines lists 31 rules (or guidelines) that you should follow to improve your productivity, become a better leader, do better in business, improve your health, succeed in life and become a happier person.

Action Steps

- Download the complete book on [Amazon](#).
- To learn more, check out the official site for [The Lean Startup](#).