The Entrepreneurial Mindset and the Lean Start Up

Evan Hu
evan@alavetta.com
twitter @evnhu
Dysfunctional Belief: Your degree determines your career.

Reframe: Three-quarters of all college grads don’t end up working in a career related to their majors.
Dysfunctional Belief: If you are successful, you will be happy.

Reframe: True happiness comes from designing a life that works for you.
Dysfunctional Belief: It’s too late.

Reframe: It’s never too late to design a life you love.

Designing Your Life: How to Build a Well-Lived, Joyful Life. Bill Burnett, Dave Evans
Marshmallow Tower Challenge
In 18 Minutes...
teams must build the Tallest freestanding structure.
Out of

20 sticks of spaghetti
1 yard of tape
1 yard of string
And 1 marshmallow
The marshmallow needs to be on top!

If you have done/seen this before…leave your table and form the “special” team!
Tom Wujec has run this same marshmallow experiment hundreds of times and found some interesting patterns.
Business students and lawyers built about half the average height of 20 inches.
Engineers and Architects did the best (and so they should)!
BUT here is the really interesting thing...
Kindergarten KIDS usually do as well as architects and engineers!
HUH?
MBAs and lawyers want to PLAN their way to an optimal outcome and then execute on the plan.
Instead of wasting time trying to make a plan or establish who is in charge, kindergarten kids simply experiment over and over until they find a model that works.
On virtually every measure of innovation they create taller and more interesting structures.
Under conditions of ambiguity, where outcomes are unknown, most people fall back on a planning mindset.
A planning mindset increases your chances of failure because you waste time devising strategies instead of trying out ideas.
And incentives increase the chances of failure!
What if you engaged in an experimentation mindset?
Research shows that 5 discovery skills distinguish the most innovative entrepreneurs from other executives (Dyer, Gregersen and Christensen)
Questioning allows innovators to break out of the status quo and consider new possibilities.
Through observing innovators detect small behavioral details—in the activities of customers, suppliers, and other companies—that suggest new ways of doing things.
In experimenting they relentlessly try on new experiences and explore the world.
Through networking with individuals and ideas from diverse backgrounds they gain radically different perspectives.
Associational Thinking

the four patterns of action together help innovators associate to cultivate new insights.
Associational Thinking:

the ability to make connections between seemingly unconnected things.
A calligraphy class inspired Steve Jobs' emphasis on typography on the revolutionary Macintosh.
DOING

questioning
observing
experimenting
networking
ASSOCIATIONAL THINKING

associate to cultivate new insights
Hmm ... it seems to be about MINDSET
Neuroplasticity

“The brain can change itself. It is a plastic, living organ that can actually change its own structure and function, even into old age.”

“It can be stimulated by conscious habits of thought and action, by teaching the brain to “rewire itself.”

“Mental activity is not only the product of the brain but the shaper of it.”
Growth Mindset

A mindset is a set of assumptions, methods and ideas held by an individual or exercised by a group.

A growth mindset is the understanding that we can develop our abilities and intelligence.
With a fixed mindset, an individual or group believes something is fixed and has defined limitations.

A fixed mindset describes you as either smart or not, you are talented or you are not.

To require effort to improve is proof of lack of intelligence or talent.

Failure is shameful
With a growth mindset, an individual or group believes that something is variable and fluid without limitations.

A growth mindset describes intelligence and talent as always changing; both grow over time due to learned behaviors, practiced improvement and actual experience.

Failure is gift
### You are not STATIC

You can DEVELOP

<table>
<thead>
<tr>
<th>Motivation</th>
<th>FIXED</th>
<th>GROWTH</th>
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<tbody>
<tr>
<td></td>
<td>Appear smart</td>
<td>Desire to learn</td>
</tr>
<tr>
<td>Challenges</td>
<td>Avoid</td>
<td>Seek</td>
</tr>
<tr>
<td>Obstacles</td>
<td>Give up</td>
<td>Persist</td>
</tr>
<tr>
<td>Effort</td>
<td>A fruitless waste</td>
<td>The path to mastery</td>
</tr>
<tr>
<td>Criticism</td>
<td>Ignore and fear</td>
<td>Learning opportunity</td>
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</table>
The entrepreneurial mindset is a growth mindset.
Lean

preserving *value* with *less work*

through continuous product and process improvement and the elimination of non-value added activities.
Waste is any human activity which absorbs resources but creates no value.

Eliminating waste is the fundamental principle of lean thinking.
The

5

• Principles of the Lean Startup

Steve Blank, Eric Ries, Alexander Osterwalder
1 Entrepreneurs Are Everywhere

You don’t have to have quit you’re day job and work in a startup …
Entrepreneurship Is Management

A startup is an institution, not just a product.

It requires management...

a new kind of management specifically geared to its context.
Startups exist not to make stuff, make money, or serve customers.

They exist to learn how to build a sustainable business.
To improve entrepreneurial outcomes, and to hold entrepreneurs accountable, we need to focus on boring stuff such as:

how to measure progress,
how to setup milestones,
how to prioritize work.

This requires a new kind of accounting, specific to startups.
The fundamental activity of a startup is to turn ideas into products, measure how customers respond and then learn whether to pivot or persevere.
Build – Measure - Learn with a
MINIMUM Viable PRODUCT

An MVP a version of a new product or service which allows your team to collect the maximum amount of validated learning about your hypothesis with the least effort.

It puts your hypotheses to the test.
Build. Measure. Learn.

Learning Milestones:
- Pivot (or Persevere)
  "No Business plan survives first contact with the customer”"
- Innovation Accounting (evaluate progress)

Hypothesis (Leap of Faith Assumptions)

"Genchi Gembutsu" (go see for yourself)
"Get Out of the Building"

Minimize TOTAL time of the MVP through loop

Most learning for the least effort

"Build. Measure. Learn.

"No Business plan survives first contact with the customer”"
what hypotheses will you be testing?
Value Hypothesis

Whether a product or services really delivers value to customers once they are using it. What job is it getting done for who?
Growth Hypothesis

How a customer will discover a product or service.
More Hypotheses

Customer (Arch-type)
Technical Feasibility
Production
Development
Scalability
The **minimum viable product (MVP)** is that version of a new product which allows a team to collect the maximum amount of **validated learning** about your hypotheses with the **least** effort.

It puts your **hypotheses to the test**.
MVP Approaches
Smoke test

Mock-up demo

Wizard of Oz prototype (fake-it No. 1)

Concierge prototype (fake-it No. 2)

“Crude and Rude” Mash-up

Minimally functioning working prototype
Build. Measure. Learn.

IDEAS

BUILD

PRODUCT

MEASURE

DATA

LEARN

MVP

Hypothesis
(Leap of Faith Assumptions)

Minimize TOTAL time
of the MVP through loop

Most learning for
the least effort

Learning Milestones

Innovation Accounting
(evaluate progress)

Pivot (or Persevere)

"Genchi Gembustsu"
(go see for yourself)
"Get Out of the Building"

"Most learning for
the least effort"
Your resources are precious.

Energy
Time
Money
time is more valuable than money

While money can fluctuate up or down time only moves in one direction.
Personal Energy

is the most precious of all.

You only have a finite reservoir that you can draw from and must share with family and friends.
Risk
decreases as your hypothesis are validated

personal energy, time, money.
Iterate until you find a sustainable and scalable business model before you run out of resources: personal energy, time, money.
Failure
I have not failed, I've just found 10,000 ways that won't work.

- Thomas A. Edison
Fail faster to succeed sooner.

David Kelley, Ideo 1997

Fail early, fail noisily.

Eric Raymond, Art of Unix Programming 1999

Fail early, fail often, fail forward.

John Maxwell, Falling Forward 2007
It’s not about failing

It’s about learning
Learn Early
Learn Often
Learn Cheap

Validate (or invalidate) your assumptions.
Learn Early
Learn Often
Learn Cheap

Get out of the office.
Learn Early
Learn Often
Learn Cheap

Pivot or Persist.
SPEED OF ITERATIONS BEATS QUALITY OF ITERATIONS
Build it and they will come …

R.I.P.
In a Nutshell...
What are your **Hypothesis**?

What do you **Measure** to validate your **Hypothesis**?

**MVP features = Measurements**

**Build an MVP with the least effort**

**Get out of the office and Measure**

**Learn from your **Data** that you measured**
Find a business model that works before you run out of:

Life can be much broader once you discover one simple fact; Everything around you that you call life was made up by people that were no smarter than you
and you can

change it

influence it

build your own things that other people can use
Once you learn that,
you'll never be the same again
Business Model Generation
A business model describes the rationale of how an organization creates, delivers, and captures value.
# The Money Earning Logic

<table>
<thead>
<tr>
<th>Planning Level</th>
<th>Strategic Level</th>
<th>Vision, Goals &amp; Objectives</th>
</tr>
</thead>
<tbody>
<tr>
<td>Architectural Level</td>
<td>Business Model</td>
<td>Money Earning Logic</td>
</tr>
<tr>
<td>Implementation Level</td>
<td>Process</td>
<td>Organization &amp; Workflow</td>
</tr>
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</table>
Ideation tool that distils the essence of your business down to **one page** that articulates your **hypotheses**.
Simple
Fast
Portable
Concise
Iterative
One Page for Everyone
Value Proposition

What are you offering them?
What is that getting done for them?
Do they care?

Characteristics:
- Newness
- Performance
- Customization
- “Getting the Job Done” Design
- Brand/Status
- Price
- Cost Reduction
- Risk Reduction Accessibility
- Convenience/Usability
Customer Segments

Key Activities

Value Proposition

Customer Relationships

Mass Market
Niche Market
Segmented
Diversified
Multi-sided Platform

Which customers and users are you serving?

Which jobs do they really want to get done?
Customer Relationships

What relationships are you establishing with each segment?

Personal? Automated? Acquisitive? Retentive?

Examples:
- Personal assistance
- Dedicated Personal Assistance
- Self-Service
- Automated Services
- Communities
- Co-creation
Channels

Channel Phases:

1. **Awareness**
   How do we raise awareness about our company’s products and services?

2. **Evaluation**
   How do we help customers evaluate our organization’s Value Proposition?

3. **Purchase**
   How do we allow customers to purchase specific products and services?

4. **Delivery**
   How do we deliver a Value Proposition to customers?

5. **After Sales**
   How do we provide post-purchase customer support?
Revenue Streams

Examples:
- Asset Sale
- Usage Fee
- Subscription Fees
- Lending/Renting/Leasing
- Licensing
- Brokerage Fees
- Advertising

Fixed Pricing:
- List Price
- Product Feature Dependent
- Customer Segment Dependent
- Volume Dependent

Dynamic Pricing:
- Negotiation
- Yield Management
- Real-time Market

What are customers really willing to pay for?

How?

Are you generating transactional or recurring revenues?
which activities do you need to perform well in your business model? what is crucial?

Categories:
- Production
- Problem Solving
- Platform/Network
Key Resources

which resources underpin your business model? which assets are essential?

Types:
- Physical
- Intellectual (brand patents, copyrights, data)
- Human
- Financial
Key Partners

which partners and suppliers leverage your model?
who do you need to rely on?

Motivations for partnerships:
- Optimization and economy
- Reduction of risk and uncertainty
- Acquisition of particular resources and activities
Cost Structures

what is the resulting cost structure?

which key elements drive your costs?

Is your business more:
- Cost Driven (leanest cost structure, low price value proposition, maximum automation, extensive outsourcing)
- Value Driven (focused on value creation, premium value proposition)

Sample characteristics:
- Fixed Costs (salaries, rents, utilities) Variable costs
- Economies of scale
- Economies of scope
<table>
<thead>
<tr>
<th>Problem</th>
<th>Solution</th>
<th>Unique Value Proposition</th>
<th>Unfair Advantage</th>
<th>Customer Segments</th>
</tr>
</thead>
<tbody>
<tr>
<td>No easy way to share files over internet</td>
<td>Application working in background tracking changes in shared directory (problem no. 1 and 2)</td>
<td>Dropbox - Throw away your USB drive</td>
<td>Technical knowledge (founder was from MIT)</td>
<td>Small and medium companies without intranet</td>
</tr>
<tr>
<td>No easy way to synchronize files between computers</td>
<td>Local file directory where people can upload files and share them by using public link (problem no.3)</td>
<td></td>
<td></td>
<td>Individuals with over one computer at home</td>
</tr>
<tr>
<td>Problem with sharing large files over internet</td>
<td></td>
<td></td>
<td></td>
<td>Early adopters: Google Doc Users</td>
</tr>
<tr>
<td>Existing alternatives:</td>
<td>Key Metrics</td>
<td></td>
<td>Channels</td>
<td></td>
</tr>
<tr>
<td>- Google Docs</td>
<td>Amount of shared data</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>- Intranet systems</td>
<td>Number of send invites</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>- FTP</td>
<td></td>
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<table>
<thead>
<tr>
<th>Cost Structure</th>
<th>Revenue Streams</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hosting (1000 USD/1000 users)</td>
<td>14 days free trial period (10 USD/month -&gt; 20GB)</td>
</tr>
<tr>
<td>Salary (CEO + DEV - 10k USD/month)</td>
<td>14 days free trial period (20 USD/month -&gt; 50GB)</td>
</tr>
<tr>
<td>Break point: 700 paid users</td>
<td></td>
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</tbody>
</table>
How to use the BMC

1. Create a poster size copy of the BMC.
2. Stick it to a wall.
3. Write your hypothesis on post-it notes.
4. Place the post-it notes on your BMC.
Ask lots of questions
Keep it Evergreen
Value Proposition Canvas
Value Proposition Canvas

The Canvas with its 9 building blocks focuses on the big picture.

The Value Proposition Designer Canvas zooms in on two of those building blocks, the Value Proposition and the Customer Segment.
Describe them in more detail and analyze the “fit” between them.

Companies need to get both right, the “fit” and the business model.
Customer Jobs

Sketching out a customer profile by describing what the customers you are targeting are trying to get done.

- the tasks they are trying to perform and complete
- the problems they are trying to solve
- or the needs they are trying to satisfy.
- What functional jobs is your customer trying get done? (e.g. perform or complete a specific task, solve a specific problem, ...)
- What social jobs is your customer trying to get done? (e.g. trying to look good, gain power or status, ...)
- What emotional jobs is your customer trying get done? (e.g. esthetics, feel good, security, ...)
- What basic needs is your customer trying to satisfy? (e.g. communication, sex, ...)

![Diagram: Customer Jobs](image)
Customer Pains

Describe negative emotions, undesired costs and situations, and risks that your customer experiences or could experience before, during, and after getting the job done.

- What does your customer find too costly? (e.g. takes a lot of time, costs too much money, requires substantial efforts, ...)
- What makes your customer feel bad? (e.g. frustrations, annoyances, things that give them a headache, ...)
- How are current solutions underperforming for your customer? (e.g. lack of features, performance, malfunctioning, ...)
- What are the main difficulties and challenges your customer encounters? (e.g. understanding how things work, difficulties getting things done, resistance, ...)
- What negative social consequences does your customer encounter or fear? (e.g. loss of face, power, trust, or status, ...)
- What risks does your customer fear? (e.g. financial, social, technical risks, or what could go awfully wrong, ...)
- What’s keeping your customer awake at night? (e.g. big issues, concerns, worries, ...)
- What common mistakes does your customer make? (e.g. usage mistakes, ...)
- What barriers are keeping your customer from adopting solutions? (e.g. upfront investment costs, learning curve, resistance to change, ...)

CUSTOMER JOBS

PAINS

13
Rank each pain according to the intensity it represents for your customer - Is it very intense or is it very light?

For each pain indicate how often it occurs.
Customer Gains

Now describe the benefits your customer expects, desires or would be surprised by. This includes functional utility, social gains, positive emotions, and cost savings.

- Which savings would make your customer happy? (e.g. in terms of time, money and effort, ...)
- What outcomes does your customer expect and what would go beyond his/her expectations? (e.g. quality level, more of something, less of something, ...)
- How do current solutions delight your customer? (e.g. specific features, performance, quality, ...)
- What would make your customer’s job or life easier? (e.g. flatter learning curve, more services, lower cost of ownership, ...)
- What positive social consequences does your customer desire? (e.g. makes them look good, increase in power, status, ...)
- What are customers looking for? (e.g. good design, guarantees, specific or more features, ...)
- What do customers dream about? (e.g. big achievements, big reliefs, ...)
- How does your customer measure success and failure? (e.g. performance, cost, ...)
- What would increase the likelihood of adopting a solution? (e.g. lower cost, less investments, lower risk, better quality, performance, design, ...)
Rank each gain according to its relevance to your customer. Is it substantial or is it insignificant?

For each gain indicate how often it occurs.
Products & Services

List all the products and services your value proposition is built around.

- Which products and services you offer that help your customer get either a functional, social, or emotional job done, or help him/her satisfy basic needs?

  - products and services may either be”
    - tangible (e.g. manufactured goods, face-to-face customer service), digital/virtual (e.g. downloads, online recommendations)
    - intangible (e.g. copyrights, quality assurance), or financial (e.g. investment funds, financing services).

- Rank all products and services according to their importance to your customer.

- Are they crucial or trivial to your customer?
Pain Relievers

Outline how your products and services create value. Describe how your products and services alleviate customer pains. How do they eliminate or reduce negative emotions, undesired costs and situations, and risks your customer experiences or could experience before, during, and after getting the job done?

- produce savings? (e.g. in terms of time, money, or efforts, ...)
- make your customers feel better? (e.g. kills frustrations, annoyances, things that give them a headache, ...)
- fix underperforming solutions? (e.g. new features, better performance, better quality, ...)
- put an end to difficulties and challenges your customers encounter? (e.g. make things easier, helping them get done, eliminate resistance, ...)
- wipe out negative social consequences your customers encounter or fear? (e.g. loss of face, power, trust, or status, ...)
- eliminate risks your customers fear? (e.g. financial, social, technical risks, or what could go awfully wrong, ...)
- help your customers better sleep at night? (e.g. by helping with big issues, diminishing concerns, or eliminating worries, ...)
- limit or eradicate common mistakes customers make? (e.g. usage mistakes, ...)
- get rid of barriers that are keeping your customer from adopting solutions? (e.g. lower or no upfront investment costs, flatter learning curve, less resistance to change, ...)
Rank each pain
your products and services kill according to their intensity for your customer. Is it very intense or very light?

For each pain indicate how often it occurs.
Gain Creators

Describe how your products and services create customer gains. How do they create benefits your customer expects, desires or would be surprised by, including functional utility, social gains, positive emotions, and cost savings?

• create savings that make your customer happy? (e.g. in terms of time, money and effort, ...)
• produce outcomes your customer expects or that go beyond their expectations? (e.g. better quality level, more of something, less of something, ...)
• copy or outperform current solutions that delight your customer? (e.g. regarding specific features, performance, quality, ...)
• make your customer’s job or life easier? (e.g. flatter learning curve, usability, accessibility, more services, lower cost of ownership, ...)
• create positive social consequences that your customer desires? (e.g. makes them look good, produces an increase in power, status, ...)
• do something customers are looking for? (e.g. good design, guarantees, specific or more features, ...)
• fulfill something customers are dreaming about? (e.g. help big achievements, produce big reliefs, ...)
• produce positive outcomes matching your customers success and failure criteria? (e.g. better performance, lower cost, ...)
• help make adoption easier? (e.g. lower cost, less investments, lower risk, better quality, performance, design, ...)

Gain Creators

Describe how your products and services create customer gains. How do they create benefits your customer expects, desires or would be surprised by, including functional utility, social gains, positive emotions, and cost savings?
Rank each gain your products and services create according to its relevance to your customer. Is it substantial or insignificant?

For each gain indicate how often it occurs.
Competing for Customers

Most Value Propositions compete with others for the same Customer Segment - an "open slot" that will be filled by the company with the best fit.
Exercise:
Apple iPod/iTunes Business Model

Split up in teams of 4-5.

Sketch out the business model.

Each team must present a least one building block.
1 Experimentation Mindset
2 Discovery Skills
3 Lean Startup Approach