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# USING A LEAN APPROACH

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AUDIT  
REVIEW**

# USING A LEAN APPROACH



“Everybody has a plan until they get punched in the mouth.”

– MIKE TYSON

One of the critical differences is that while existing companies execute a business model, start-ups look for one. This distinction is at the heart of the lean start-up approach. It shapes the lean definition of a start-up: a temporary organisation designed to search for a repeatable and scalable business model.

## The lean method has three key principles:<sup>1</sup>

1. Rather than engaging in months of planning and research, entrepreneurs accept that all they have on day one is a series of untested hypotheses – basically, good guesses.

So instead of writing an intricate business plan, summarize the hypotheses in a framework called a business model canvas. Essentially, this is a diagram of how a company creates value for itself and its customers.

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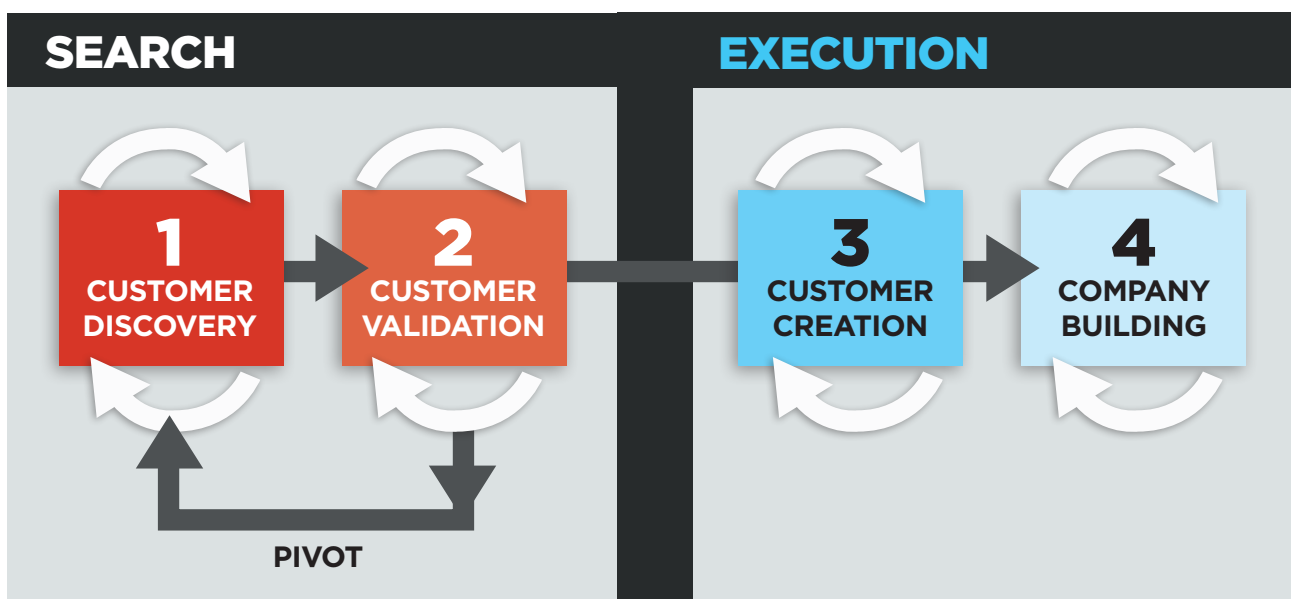
KEY PARTNERS	KEY ACTIVITIES	VALUE PROPOSITIONS	CUSTOMER RELATIONSHIPS	CUSTOMER SEGMENTS
Who are our key partners? Who are our key suppliers? Which key resources are we acquiring from our partners? Which key activities do partners perform?	What key activities do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?	What value do we deliver to the customer? Which one of our customers' problems are we helping to solve? What bundles of products and services are we offering to each segment? Which customer needs are we satisfying? What is the minimum viable product?	How do we get, keep, and grow customers? Which customer relationships have we established? How are they integrated with the rest of our business model? How costly are they?	For whom are we creating value? Who are our most important customers? What are the customer archetypes?
	<b>KEY RESOURCES</b>		<b>CHANNELS</b>	
	What key resources do our value propositions require? Our distribution channels? Customer relationships? Revenue streams?		Through which channels do our customer segments want to be reached? How do other companies reach them now? Which ones work best? Which ones are most cost-efficient? How are we integrating them with customer routines?	
<b>COST STRUCTURE</b>		<b>REVENUE STREAMS</b>		
What are the most important costs inherent to our business model? Which key resources are most expensive? Which key activities are most expensive?		For what value are our customers really willing to pay? For what do they currently pay? What is the revenue model? What are the pricing tactics?		

**Source:** [www.Businessmodelgeneration.Com/canvas](http://www.Businessmodelgeneration.Com/canvas). Canvas concept developed by Alexander Osterwalder and Yves Pigneur.

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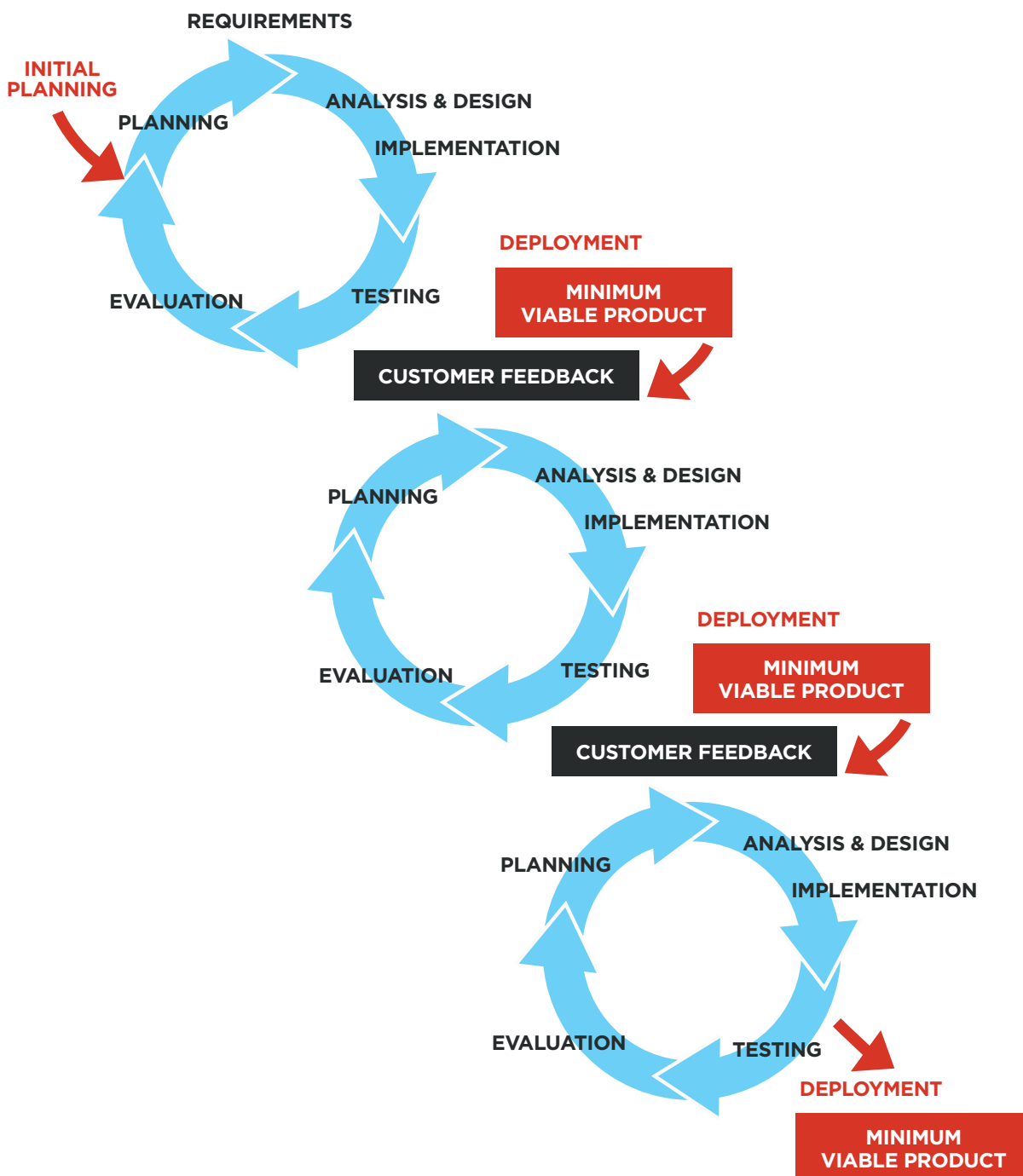
2. Lean start-ups use a “get out of the building” approach called customer development to test their hypotheses. Go out and ask potential users, purchasers, and partners for feedback on all elements of the business model, including product features, pricing, distribution channels, and affordable customer acquisition strategies.

The emphasis is on nimbleness and speed: New ventures rapidly assemble minimum viable products and immediately elicit customer feedback. Then, using customers’ input to revise the assumptions, start the cycle over again, testing redesigned offerings and making further small adjustments (iterations) or more substantive ones (pivots) to ideas that aren’t working.



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3. Lean start-ups practice something called agile development. Agile development works hand-in-hand with customer development. Unlike typical long product development cycles that presuppose knowledge of customers' problems and product needs, agile development eliminates wasted time and resources by developing the product iteratively and incrementally. It's the process by which start-ups create the minimum viable products they test.



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Success is predicated on too many factors for one methodology to guarantee that any single start-up will be a winner. Using lean methods across a portfolio of start-ups will result in fewer failures than using traditional methods.

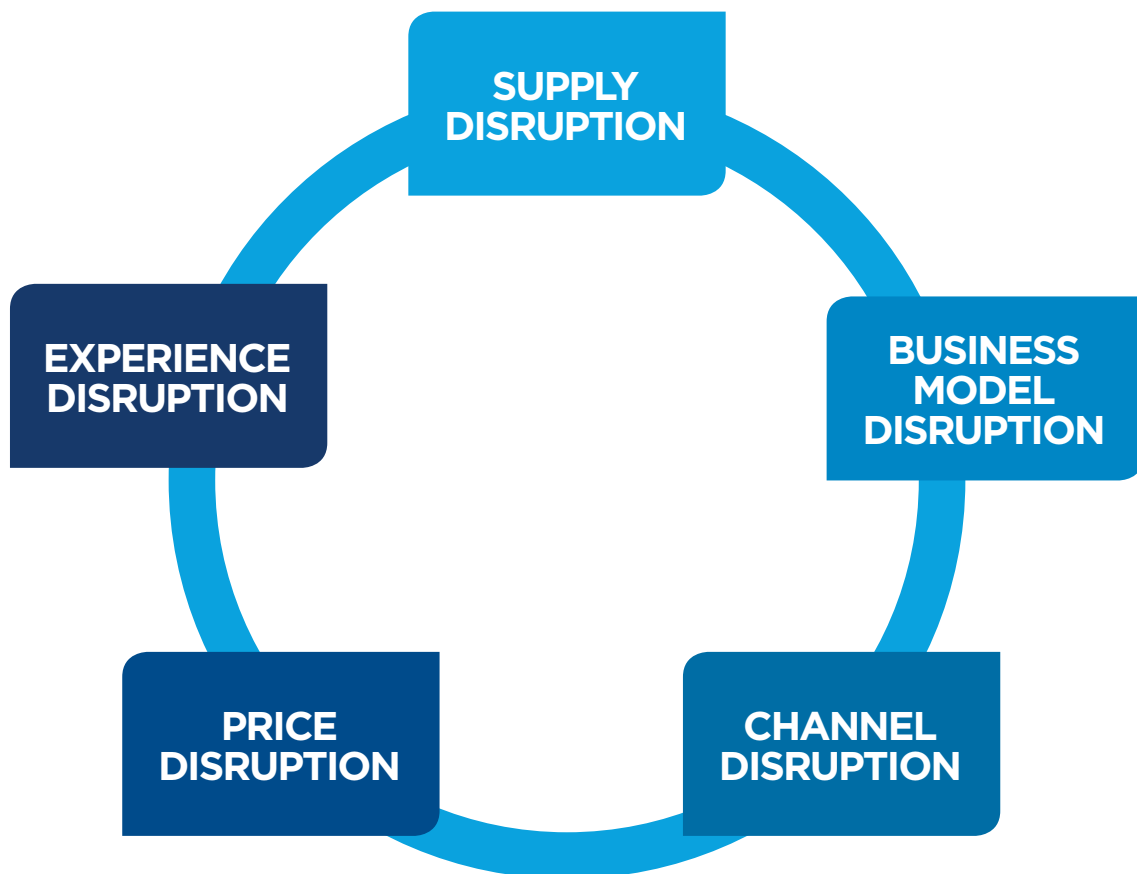
LEAN	TRADITIONAL
<b>STRATEGY</b>	
Business Model Hypothesis-driven	Business Plan Implementation-driven
<b>NEW-PRODUCT PROCESS</b>	
Customer Development Get out of the office and test hypotheses	Product Management Prepare offering for market following a linear, step-by-step plan
<b>ENGINEERING</b>	
Agile Development Build the product iteratively and Incrementally	Agile or Waterfall Development Build the product iteratively, or fully specify the product before building it
<b>ORGANISATION</b>	
Customer and Agile Development Teams Hire for learning, nimbleness, and speed	Departments by Function Hire for experience and ability to execute
<b>FINANCIAL REPORTING</b>	
Metrics That Matter Customer acquisition cost, lifetime customer value, churn, virallness	Accounting Income statement, balance sheet, cash flow statement
<b>FAILURE</b>	
Expected Fix by iterating on ideas and pivoting away from ones that don't work	Exception Fix by firing executives
<b>SPEED</b>	
Rapid Operates on good-enough data	Measured Operates on complete data

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## How Digital Disrupts Industries

- 1 Disruptive Entrants eg Uber
- 2 Products as Software eg Tesla
- 3 Innovative Competitors eg scan & go
- 4 Channel Disintermediators eg Peapod or Grocery runt

### TYPES OF DIGITAL DISRUPTION<sup>1</sup>



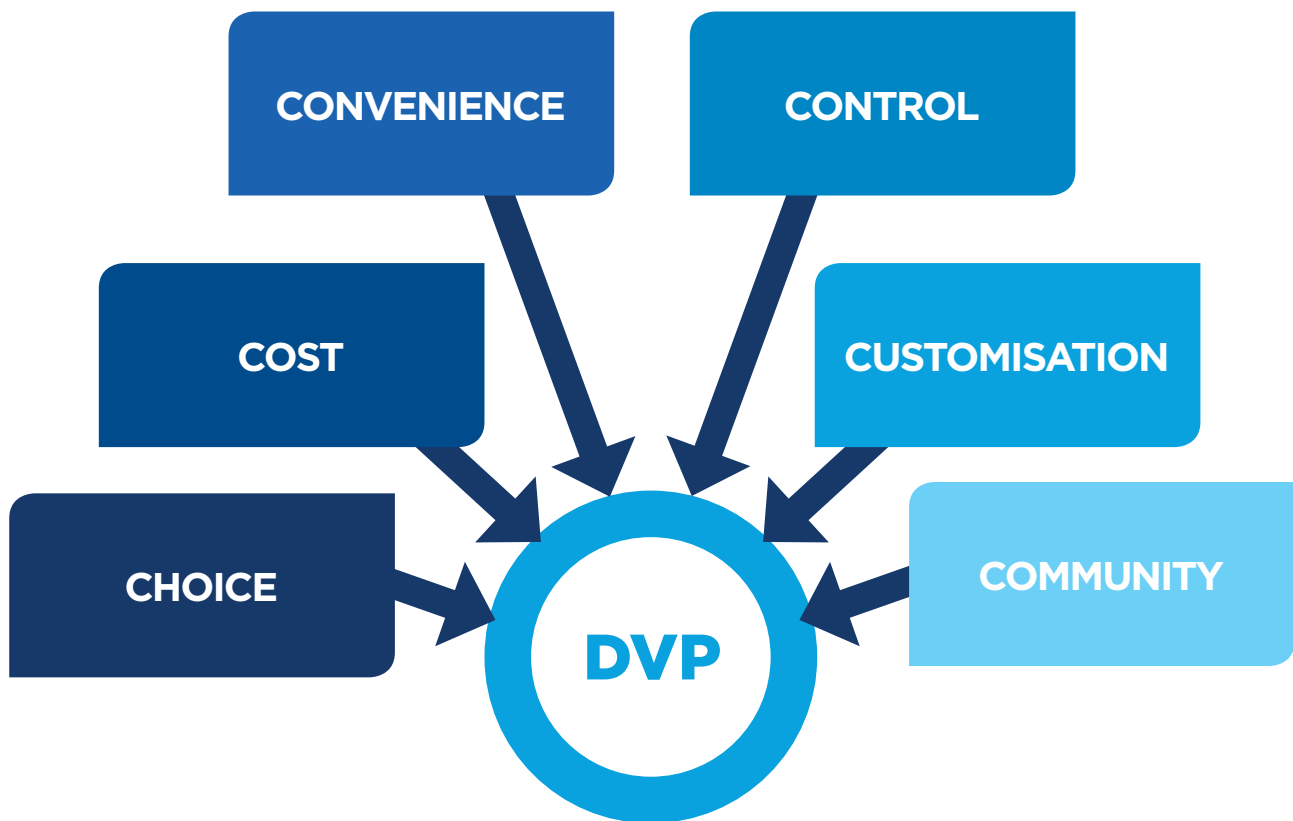
- Supply disruption eg airbnb
- BM eg axiom or CommSec
- Channel eg [finder.com.au](https://www.finder.com.au) for homeloans
- Price eg Gonkai smartphone for \$5
- Experience eg Tesla will download software overnight to improve your car performance

1. Mohanbir Sawhney

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## Disruptive Customer Value Propositions

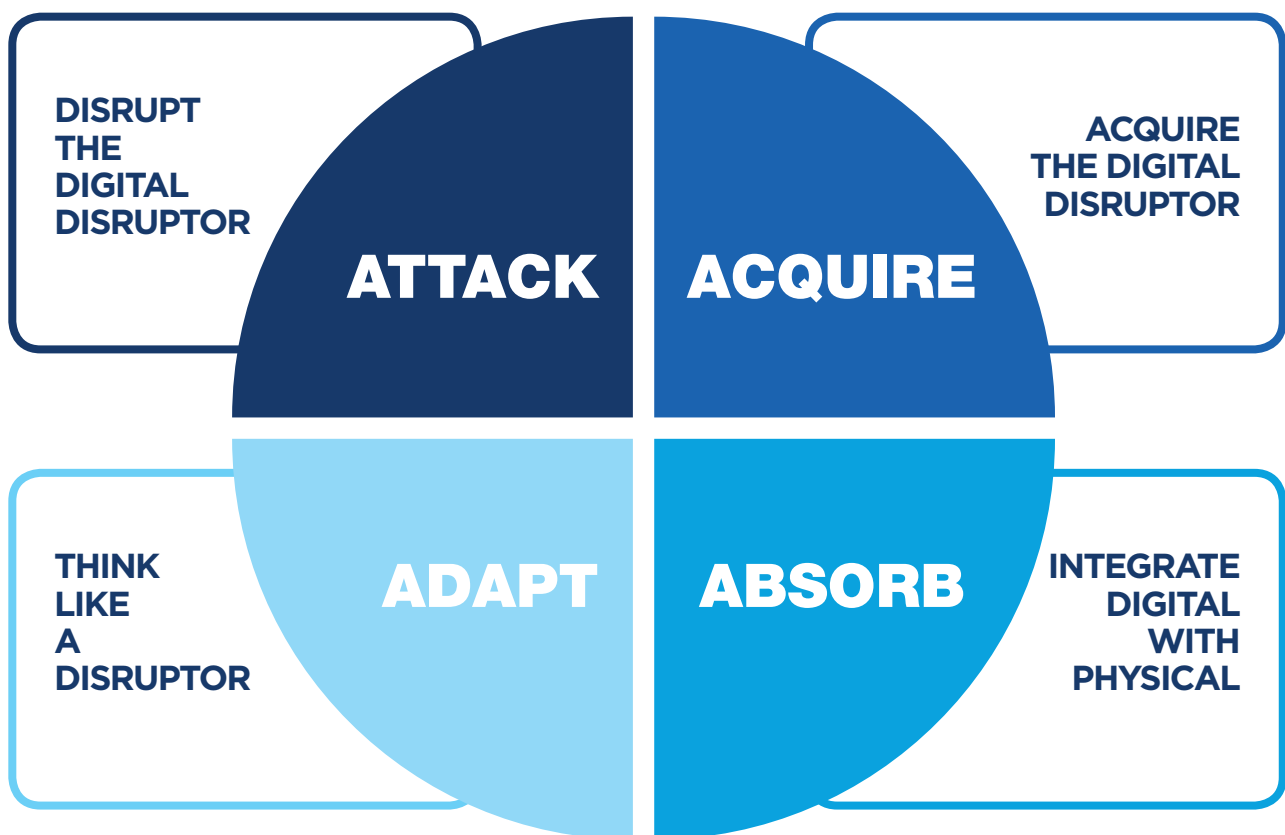
The 6 C's of the Digital Value Proposition



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## Dealing with Digital Disruption

The 4 A's of Dealing with Digital Disruption



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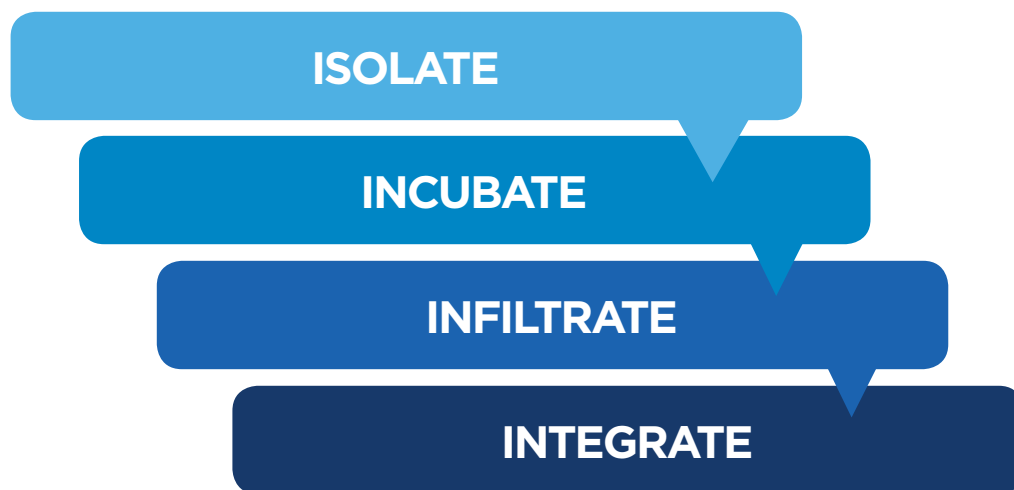
## Attack – Disrupt your own Business

- Attack digital disruptors by creating a digital disruptor of your own
- Leverage your assets and brand to create a model disruptors cannot copy
- Compete asymmetrically using judo strategy

Eg HBO

## Acquire – Keep Cannibals in the Family

Steps in Organizational Integration



## Absorb – Integrate Digital with Physical

- Create a consistent web, mobile and social media experience
- Leverage social media for in-store sales promotions
- Link online commerce with retail stores
- Design digitally enhanced physical brand experiences

## Adapt – Learn from Digital Disruptors

- Question assumptions
- Embrace agile processes
- Build marketing into your products
- Leverage privileged assets
- Think big, start small, scale fast

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## Six Qualities Required of a Disruptive CEO<sup>1</sup>

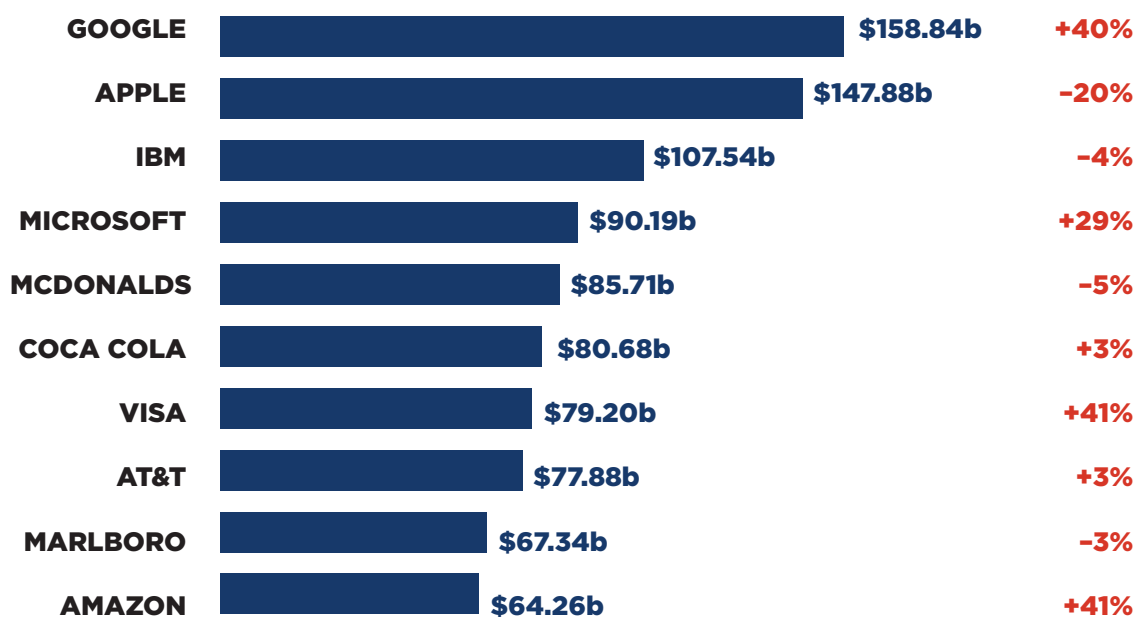
- 1 Visionary customer advocate
- 2 Data-driven experimentalist
- 3 Optimistic realist
- 4 Extremely adaptable
- 5 Radically open
- 6 Hyper-confident

Customers are the biggest disruptors



Customers now create more value, more quickly, than any other single kind of business asset

### BRAND VALUE CHANGE 2014 V 2013



Source: Millward Brown Optimor

1. Exponential Organizations (2015) Salime Ismail, et.al.

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## Forrester's Customer Experience Pyramid



Forester Research, adapted from Elizabeth B.N. Sanders, Converging Perspectives: Product Development Research for the 1990's" Design Management Journal Vol. 3 No. 4 (1992)

At the very least, what customers want is the ability to have their needs met when they interact with a company. What are those needs? Only companies can determine that through effective customer surveys, focus groups, customer diaries, mystery shopping and touch point analyses that uncover what is collectively referred to as the "Voice of the Customer."

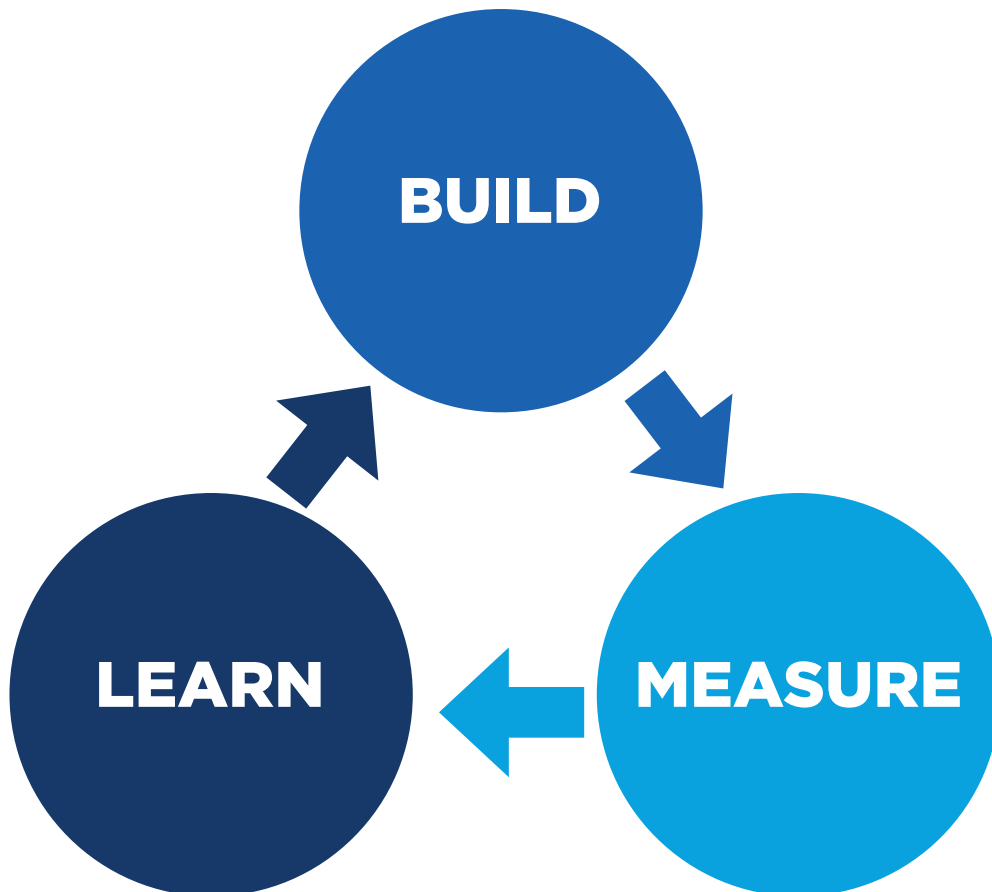
Once customers' needs are met, they want their interactions with a company to be easy. Responsive websites, effective navigation, easy-to-read content, efficient registration procedures, attentive customer service and systems that remember users' preferences are all examples of ways in which companies can make the customer journey easier to traverse.

Finally, customers want their interactions to be enjoyable. This perhaps is best accomplished by putting processes in place that anticipate the customer's needs and delight them with above-and-beyond approaches to meeting those needs. When companies make an interaction enjoyable, it also becomes memorable, and deepens customer loyalty. Starbucks nails this concept with their "Puppiccino," in which customers' pups are offered a complementary small cup of whipped cream to enjoy while the customer enjoys their beverage of choice.

Removing friction, improving the customer experience, making it enjoyable and memorable turn customers into advocates. A single negative experience will trump 100 positive experiences. That is why Amazon has, as it's number one metric the NRR – Negative Response Rate.

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## The Lean Start Up Approach<sup>1</sup>



### BUILD-MEASURE-LEARN

According to Steve Blank<sup>2</sup>, the goal of Build-Measure-Learn is not to build a final product to ship or even to build a prototype of a product, *but to establish a validated learning model* (Learning could be about product features, customer needs, the right pricing and distribution channel, etc.).

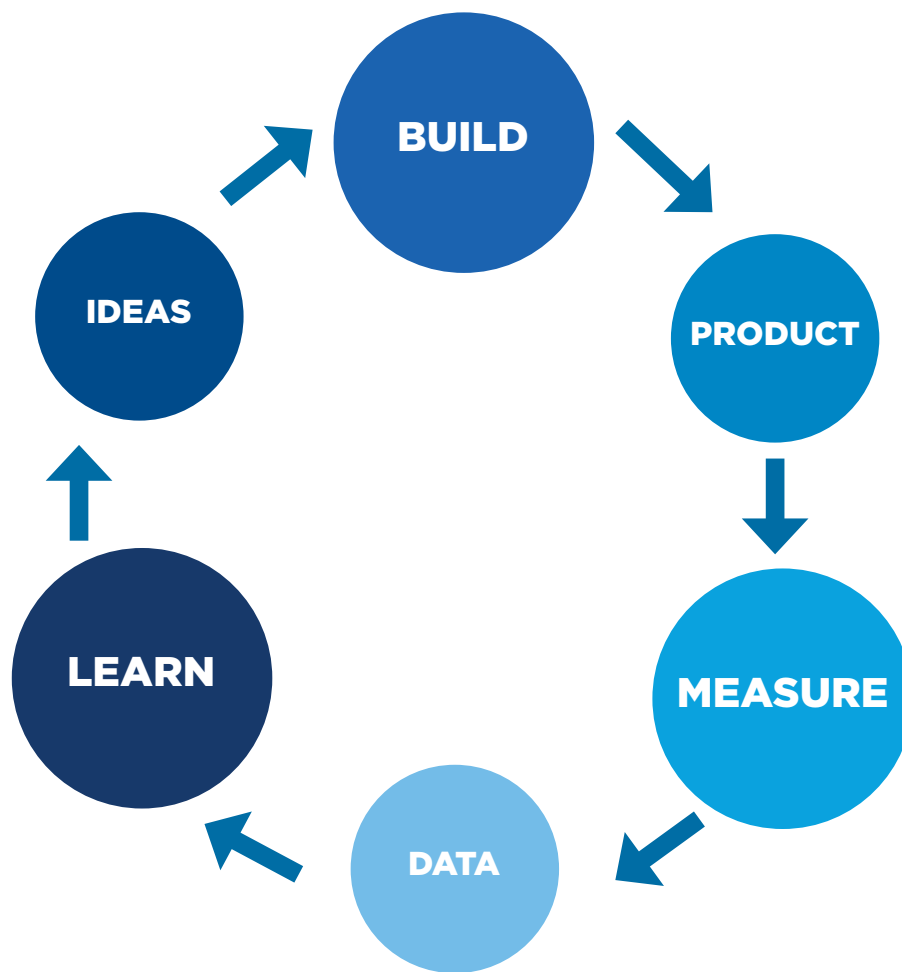
The “build” step refers to building a minimal viable product (an MVP.) It’s critical to understand that an

MVP is not the product with fewer features. Rather it is the simplest thing that you can show to customers to *get the most learning at that point in time*.

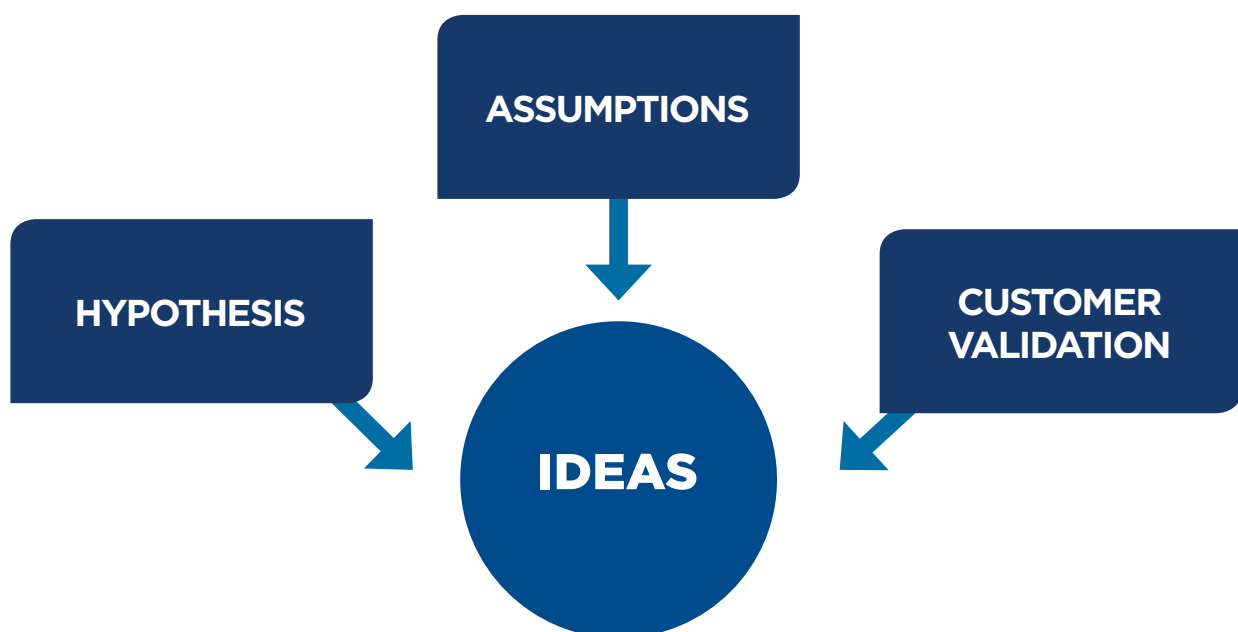
Early on in a startup process an MVP could simply be a PowerPoint slide, wireframe, clay model, sample data set, etc. Each time you build an MVP you also define what you are trying to test/measure. Later, as more is learned, the MVP’s go from low-fidelity to higher fidelity, but the goal continues to be to maximise learning.

1. Eric Ries, the Lean Start Up
2. Blank and Dorf, the Start Up Owners Manual

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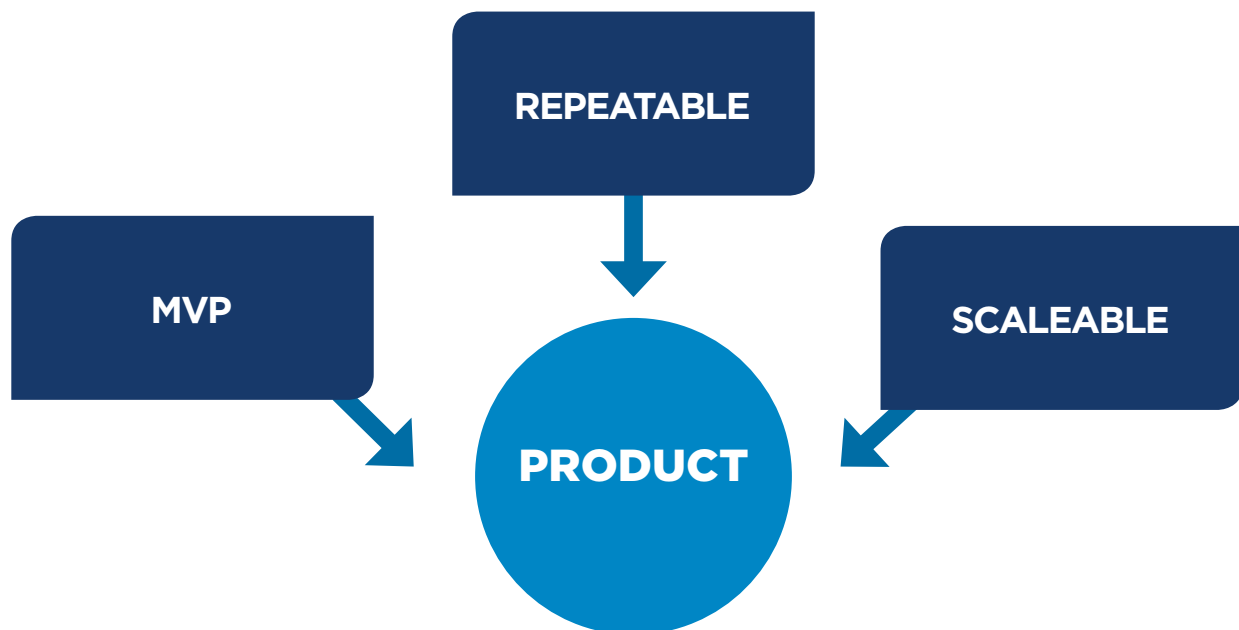
When we look at the elements of the Build – Measure – Learn process we can consider more elements.



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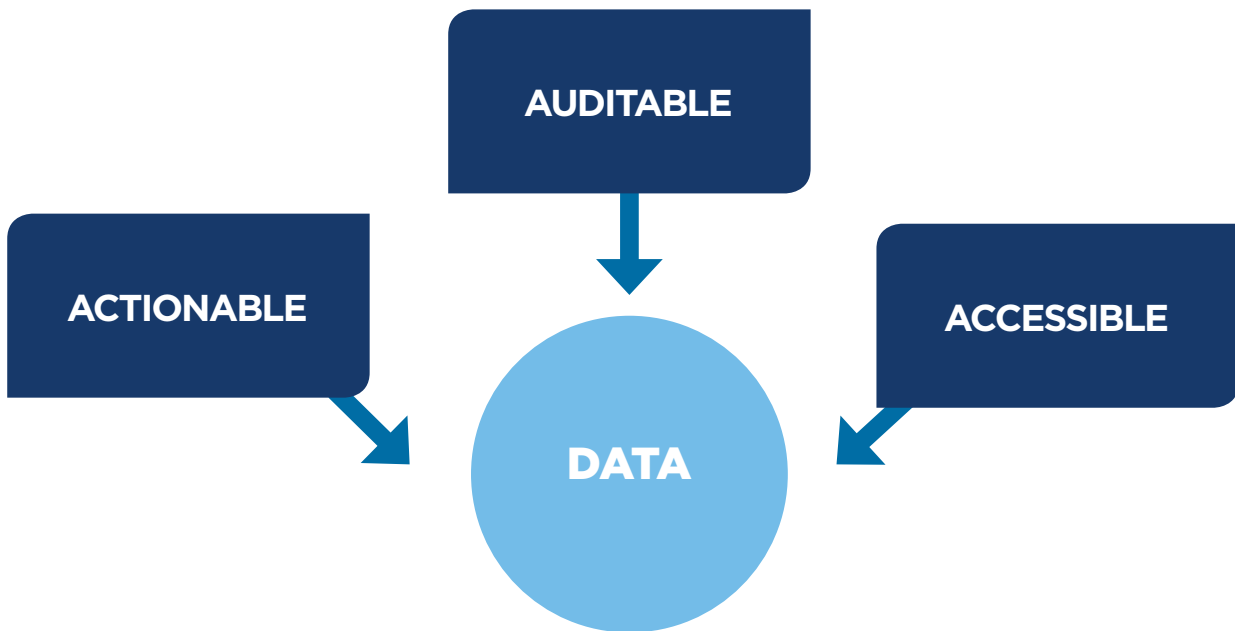
Ideas are based on Hypothesis. These must be able to be tested. The hypothesis is based on assumptions that have been customer validated. That, is, you need to get out of the building and talk to customers. Does it meet a need? Does it solve a painful problem? Would they pay for it?

A hypothesis is an educated guess that requires experimentation and data to validate or find is not valid. Once you have a hypothesis, you must design experiments, test the outcomes, gain the insight from those tests and iterate or improve the hypothesis.



Product should be the Minimum Viable Product. This will be the minimum to get to customers in order to test your hypothesis. Do not over engineer this phase. The MVP will develop based on validated learning.

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Metrics need to be able to allow you to make decisions. They need to be able to be measured in an efficient and agreed way. If you can't measure it – you can't manage it. Finally, there must be agreement to what the data is, why it is there and why you need to collect it.

Data should be focussed on meeting needs or drives. Not Vanity Metrics that do not have an impact on the business. A key issue is stating the baseline;

- A baseline is the figure that represents the “before” photo: it's where you want to trend *from*
- If someone can't give you a baseline figure, it means they:
  - Don't have any appropriate measures, or
  - Know the right measures but don't/won't collect the data

- Will never be able to tell you accurately whether things are getting better or worse (a real problem if they are spending your money)
- Have no end-point in sight for your funding or cooperation
- May have a completely different understanding of the actual problem from you