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2nd Edition

Ash Maurya

RUNNING LEAN

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“Ash has laid out a clear compass for anyone to validate their ideas, solve real problems, and create a successful business. I’d recommend this book to anyone trying to get a business off the ground.”

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Dan Shapiro
CEO and Founder, Sparkbuy and Ontela

“I wish I had read Ash’s book before setting out on my own entrepreneurial journey, as it lays out clearly and concisely a cheat sheet to learn many of the lessons that I’ve learned in the last four years through the school of hard knocks.”

Jason Jacobs
Founder and CEO, RunKeeper

“Running Lean is remarkably relevant and clarifying for today’s generation of Internet entrepreneurs, and it’s applicable to so much more. Ash outlines a way of thinking, testing, and launching that can and should be applied to various organizations (small to big), functions (engineering to marketing), and models (consumer to enterprise).”

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Author, RyanSpoon.com

“In Running Lean, Ash Maurya lays out a clear, practical plan for giving your startup the best possible chance. We used his approach at Year One Labs with every one of our startups. It’s the best way for new companies to find their groove, explain their business model, and ultimately, grow their business.”

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Mark Zimmerman
Senior Advisor, MaRS

“Running Lean is a terrific step-by-step guide combining the best of Lean Startup, customer development, business model canvas, and agile/continuous integration. Anyone involved in starting, funding, or helping others build new businesses will benefit, as our students at Northwestern have, from this practical and comprehensive guide to the modern startup.”

Todd Warren
Divergent Ventures
Class Chairman, NUvention Web, Northwestern University

“This is an invaluable resource for budding entrepreneurs, providing a wealth of immediately actionable advice within a logical and accessible framework.”

Dave Chapman
Vice-Dean for Enterprise, Faculty of Engineering Sciences
Deputy Head of Department, Science & Innovation
Director MSc Technology Entrepreneurship
University College London

“Running Lean is THE practical guide for understanding and implementing Lean Startup. It’s clear, well-organized, and detailed. Ash doesn’t guarantee success, or claim Lean is perfect (it’s not!), but he’ll help you avoid the most common and painful pitfalls of running a startup. If you want to be systematic, rigorous, and honest in your startup efforts, as opposed to throwing a Hail Mary pass while blindfolded in space, read and use Running Lean.”

Benjamin Yoskovitz
VP Product, GoInstant
Founding Partner, Year One Labs
instigatorblog.com

“Running Lean was a good overview of the Lean Startup principles as practically applied to software/Internet startups. Virtually everyone in the space, including those very familiar with other writing on the Lean Startup, can pull at least one useful tactic out of it. I particularly liked the discussion of how to use customer development interviews to overcome pricing objections.”

Patrick McKenzie
Founder, Kalzumeus Software
@patio11

“Running Lean is a great resource for the aspiring or successful web entrepreneur since it consolidates the best startup thinking in a practical guidebook that will prevent you from making the some of the most common early-stage mistakes. It is required reading for all my students and angel investment management teams since it improves the chance of startup success.”

Michael Marasco
Director and Professor, Farley Center for Entrepreneurship
and Innovation, Northwestern University
Angel Investor

“Running Lean is the Missing Manual to the Lean Methodology that focuses on actionable tactics to help you find and vet your web startup idea. If you’re considering building an application using the Lean methodology, you are wasting valuable time by not following the path Ash has laid out in this book.”

Rob Walling

Serial Entrepreneur

Author, *Start Small, Stay Small: A Developer’s Guide to Launching a Startup*

Running Lean, Second Edition

by Ash Maurya

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Foreword

Running Lean is the first book in the new *Lean Series*. Following the publication of *The Lean Startup* last year, I have had the opportunity to meet thousands of entrepreneurs and managers around the world. I have enjoyed hearing their stories and grappling with their questions. Most of all, I have heard an overwhelming demand for practical guidance for how to put Lean Startup principles into practice. There is no better person to begin that mission than Ash Maurya.

“Practice trumps theory.” When I first read those words on Ash Maurya’s blog, I knew he would be a valuable addition to a fledgling movement that was just getting started. Since then, he has been a tireless advocate for the Lean Startup movement. He has rigorously tested techniques for applying these ideas in his own startups, sharing what works and what doesn’t. He has conducted countless workshops, each of which is a crucible for discovering the challenges that real entrepreneurs face and for evaluating which solutions really work. And he has been a leader in bringing the movement to his hometown of Austin, one of our most important startup hubs.

The result of all of this work is the volume you now hold in your hand. *Running Lean* is a handbook for practicing entrepreneurs who want to increase their odds of success. This is not a book of philosophy, or an entertaining compendium of anecdotes. Rather, it is a detailed look at a battle-tested approach to building companies that matter.

We are living in an age of entrepreneurship. Most of the net new job growth in the USA in the past few decades has come from high-growth startups. All of us—investors, managers, policy makers, and ordinary citizens—have an interest in creating the conditions that will foster entrepreneurship. Our future prosperity depends on it.

There are probably more entrepreneurs operating today than at any time in history, thanks to profound changes in the startup landscape. New technologies, like cloud computing, are making it easier and cheaper to get started. New management methods, like the Lean Startup, are helping founders make better use of these capabilities. There has never been a better time to be an entrepreneur.

If I had to summarize these changes in one phrase, it would be this one: “the rentership of the means of production”—turning Karl Marx’s famous dictum on its head. In past eras, to build and operate a company of significant scale required dozens of stakeholders to give you permission. You needed access to capital, machinery, factories, warehouses, distribution partners, mass-market advertising, and so on.

Today, anyone with a credit card can *rent* all of these capabilities and more. What is significant about this development is that it enables more startup experiments than ever before. And make no mistake, a startup *is* an experiment. Today’s companies can build anything they can imagine. So the question we are called on to answer is no longer primarily, “*can* it be built?”, but rather, “*should* it be built?”

We need these experiments more than ever. The old management tools, pioneered by 20th-century companies like General Motors, relied on planning and forecasting in order to measure progress, assess opportunities, and hold managers accountable. And yet who really feels that our world is getting more and more stable every day?

Successful new products require constant, disciplined, experimentation—in the scientific sense—in order to discover new sources of profitable growth. This is true for the tiniest startup as well as for the most established company.

Running Lean provides a step-by-step blueprint to put these ideas into action. A business plan rests on a series of leap-of-faith assumptions, each of which can be tested empirically. Will customers want the product we're building? Will they pay for it? Can we provide a service profitably? And once we find customers, can we grow? *Running Lean* lays out Ash's approach to breaking these assumptions down so that they can become the subjects of rigorous experiments.

Running Lean's simple, action-oriented templates provide tools that startups in all stages of development can use to help build breakthrough, disruptive new products and organizations.

It's been just about three years since I first wrote the phrase "lean startup" in a blog post that a few dozen people read. Since then, these ideas have grown into a movement, embraced by thousands of entrepreneurs around the world dedicated to making sure that new products and new startups succeed. As you read through *Running Lean*, I hope you will put these ideas into practice and join our community. Odds are there is a Lean Startup Meetup taking place in your city. A complete list of meetups and links to other resources can be found at the official Lean Startup homepage: <http://theleanstartup.com>.

Welcome to the cutting edge of entrepreneurial practice. I hope you'll share what you learn, what works and what doesn't. Thank you for being part of this experiment.

Eric Ries
January 20, 2012
San Francisco, CA

Meta-Principles

The proper application of any methodology first requires a clear understanding and separation of principles from tactics.

Principles guide what you do. Tactics show you how.

The essence of Running Lean can be distilled into three steps:

1. Document your Plan A.
2. Identify the riskiest parts of your plan.
3. Systematically test your plan.

In this chapter, we'll cover these meta-principles. The rest of the book will focus on the reduction of these meta-principles to practice.

Step 1: Document Your Plan A

There Is an "I" in Vision

All men dream; but not equally. Those that dream by night in the dusty recesses of their minds wake in the day to find that it was vanity: but the dreamers of the day are dangerous men, for they may act their dreams with open eyes, to make it possible.

—T.E. Lawrence, "Lawrence of Arabia"

Everyone gets hit by ideas when they least expect them (in the shower, while driving, etc.). Most people ignore them. Entrepreneurs choose to act on them.

While passion and determination are attributes that are essential in order to drive a vision to its full potential, if they are left unchecked, they can also turn the journey into a faith-based one driven by dogma.

Reasonably smart people can rationalize anything, but entrepreneurs are especially gifted at this.

Most entrepreneurs start with a strong initial vision and a Plan A for realizing that vision. Unfortunately, *most Plan A's don't work.*

While a strong vision is required to create a mantra and make meaning, a Lean Startup strives to uphold a strong vision with facts, not faith. It is important to accept that your initial vision is built largely on untested assumptions (or hypotheses). Running Lean helps you systematically test and refine that initial vision.

Capture Your Business Model Hypotheses

Too many founders carry their hypotheses in their heads alone, which, though the fastest way to iterate, only helps to further support their own “reality distortion fields.”

The first step is *writing down* your initial vision and then *sharing* it with at least one other person.

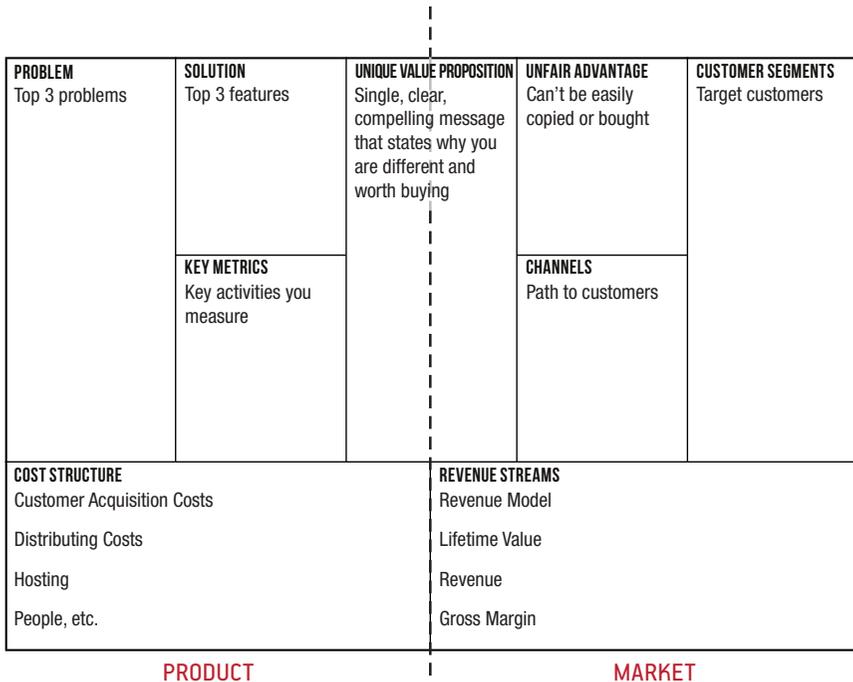
Traditionally, business plans have been used for this purpose. But, while writing a business plan is a good exercise for the entrepreneur, it falls short of its true purpose: Facilitating conversations with people other than yourself.

Additionally, since most Plan As are likely to be proven wrong anyway, you need something less static and rigid than a business plan. Taking several weeks or months to write a 60-page business plan largely built on untested hypotheses is a form of waste.

Waste is any human activity which absorbs resources but creates no value.

—James P. Womak and Daniel T. Jones, *Lean Thinking* (Free Press)

My format of choice is to use the one-page business model diagram (Lean Canvas) shown in Figure 1-1.



Lean Canvas is adapted from The Business Model Canvas (<http://www.businessmodelgeneration.com>) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Figure 1-1. *Lean Canvas*

Lean Canvas is my adaptation of Alex Osterwalder’s Business Model Canvas, which he describes in the book *Business Model Generation* (Wiley).¹

I particularly like the one-page canvas format because it is:

Fast

Compared to writing a business plan, which can take several weeks or months, you can outline multiple business models on a canvas in one afternoon. Because creating these one-page business models takes so little time, I recommend spending a little additional time up front, brainstorming possible variations to your model and then prioritizing where to start.

Concise

The canvas forces you to pick your words carefully and get to the point. This is great practice for distilling the essence of your product. You have 30 seconds to grab the attention of an investor over a

¹ To understand the differences between Lean Canvas and the original Business Model Canvas, see <http://www.ashmaurya.com/why-lean-canvas>.

hypothetical elevator ride, and eight seconds to grab the attention of a customer on your landing page.²

Portable

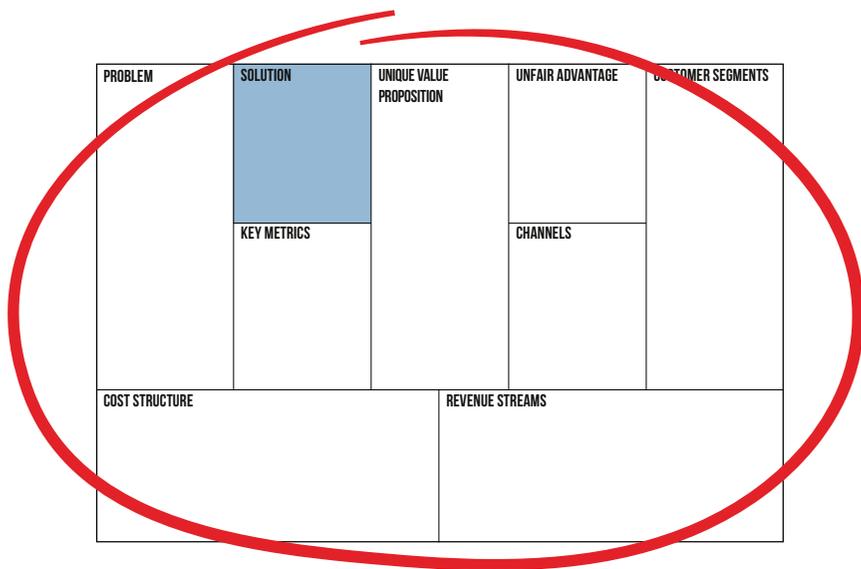
A single-page business model is much easier to share with others, which means it will be read by more people and probably will be more frequently updated.

If you have ever written a business plan or created a slide deck for investors, you'll immediately recognize most of the building blocks on the canvas. I won't spend time describing these blocks right now, as we'll cover them in great detail in Part 2 of the book.

A key point I would like you to take away for now, though, is that *your product is NOT "the product"* of your startup.

Your Product Is NOT "the Product"

I purposely made the solution box less than one-ninth of the entire canvas because, as entrepreneurs, we are most passionate about the solution box and what we are naturally good at (see Figure 1-2).



Your "business model" is the product

Lean Canvas is adapted from The Business Model Canvas (<http://www.businessmodelgeneration.com>) and is licensed under the Creative Commons Attribution-Share Alike 3.0 Un-ported License.

Figure 1-2. *Your product is NOT "the product"*

² It is estimated that up to 50% of visitors to landing pages will bail in the first eight seconds. Source: MarketingSherpa's "Landing Page Handbook" (2005).

Dave McClure of 500 Startups has sat through hundreds of entrepreneur pitches and will probably sit through hundreds more. During these sessions, he has repeatedly called out entrepreneurs for spending a disproportionate amount of time talking about their solution and *not* enough time talking about the other components of the business model.

Customers don't care about your solution. They care about their problems.

—Dave McClure, 500 Startups

Investors, and more important, customers, identify with their problems and *don't care about your solution (yet)*. Entrepreneurs, on the other hand, are naturally wired to look for solutions. But chasing after solutions to problems no one cares enough about is a form of waste.

Your job isn't just building the best solution, but owning the entire business model and making all the pieces fit.

Recognizing your business model as a product is empowering. Not only does it let you own your business model, but it also allows you to apply well-known techniques from product development to building your company.

If you take a step back, you'll see that these meta-principles are nothing more than the *divide and conquer* technique applied to the process of starting up.

Lean Canvas helps deconstruct your business model into nine distinct sub-parts that are then systematically tested, in order of highest to lowest risk.

Step 2: Identify the Riskiest Parts of Your Plan

Building a successful product is fundamentally about risk mitigation.

Customers buy from you when they trust you can solve their problems. Investors bet on you when they trust you can build a scalable business model.

Startups are a risky business, and our real job as entrepreneurs is to systematically de-risk our startups over time.

Another technique taken from the Product Development playbook is that of “tackling the riskiest parts first.” Not coincidentally, for most products, the solution isn't what's riskiest.

Unless you are trying to solve a particularly hard technical problem (like finding a cure for cancer, building the next big search algorithm, or splitting isotopes), chances are you will be able to build your product given enough time, money, and effort.

The bigger risk for most startups is building something nobody wants.

While what's riskiest varies across products, a lot of that risk is driven by the stage of your startup, which we'll cover next.

The Three Stages of a Startup

A startup goes through three distinct stages, as shown in Figure 1-3.



Figure 1-3. Three stages of a startup

Stage 1: Problem/Solution Fit

Key question: Do I have a problem worth solving?

The first stage is about determining whether you have a *problem worth solving* before investing months or years of effort into building a solution.

While ideas are cheap, acting on them is quite expensive.

A problem worth solving boils down to three questions:

- Is it something customers want? (must-have)
- Will they pay for it? If not, who will? (viable)
- Can it be solved? (feasible)

During this stage, we attempt to answer these questions using a combination of qualitative customer observation and interviewing techniques that we'll cover in great detail Chapters 5 and 6.³

From there you derive the minimum feature set to address the right set of problems, which is also known as the minimum viable product (MVP).

Stage 2: Product/Market Fit

Key question: Have I built something people want?

Once you have a problem worth solving and your MVP has been built, you then test how well your solution solves the problem. In other words, you measure whether you have built *something people want*.

³ In *The Four Steps to the Epiphany*, Steve Blank points out the importance of in-depth customer interviews, which he terms "Customer Discovery."

In Part 4 of this book, we'll cover both qualitative and quantitative metrics for measuring product/market fit.

Achieving traction or product/market fit is the first significant milestone for a startup. At this stage, you have a plan that is starting to work—you are signing up customers, retaining them, and getting paid.

Stage 3: Scale

Key question: How do I accelerate growth?

After product/market fit, some level of success is almost always guaranteed. Your focus at this stage shifts toward growth, or *scaling* your business model.

Pivot Before Product/Market Fit, Optimize After

Achieving product/market fit is the first significant milestone of a startup and greatly influences both strategy and tactics. For this reason, it is helpful to further delineate the stages of a startup as “before product/market fit” and “after product/market fit.”

Before product/market fit, the focus of the startup centers on *learning and pivots*. After product/market fit, the focus shifts toward *growth and optimizations*. (See Figure 1-4.)



Figure 1-4. Before and after product/market fit

Pivot is a term used by Eric Ries to describe a change in direction of a startup while staying grounded in learning. The best way to differentiate pivots from optimizations is that pivots are about *finding a plan that works*, while optimizations are about *accelerating that plan*.

In a pivot experiment, you attempt to *validate* parts of the business model hypotheses in order to find a plan that works. In an optimization experiment, you attempt to *refine* parts of the business model hypotheses in order to accelerate a working plan. The goal of the first is a course correction (or a pivot). The goal of the second is efficiency (or scale).

This may sound like a subtle distinction, but it has a significant impact on both strategic and tactical execution. Before product/market fit, a startup needs to be architected to maximize learning.

You stand to learn the most when the probability of the expected outcome is 50%; that is, when you don't know what to expect.

In order to maximize learning, you have to *pick bold outcomes* instead of chasing incremental improvements. So, rather than changing the color of your call-to-action button, change your entire landing page. Rather than tweaking your unique value proposition (UVP) for a single customer segment, experiment with different UVPs for different customer segments.

Later in the book, we'll visit many other examples that explain how you purposely architect for learning over optimization.

Where Does Funding Fit into All This?

It's funny to note how the 37signals folks went from “Outside money is Plan B” to “Outside money is Plan Z” between their last two books: *Getting Real* and *Rework* (37signals.com). Once you're profitable, it's easy to make such a declaration, but some times are certainly better than others to consider external funding (see Figure 1-5).

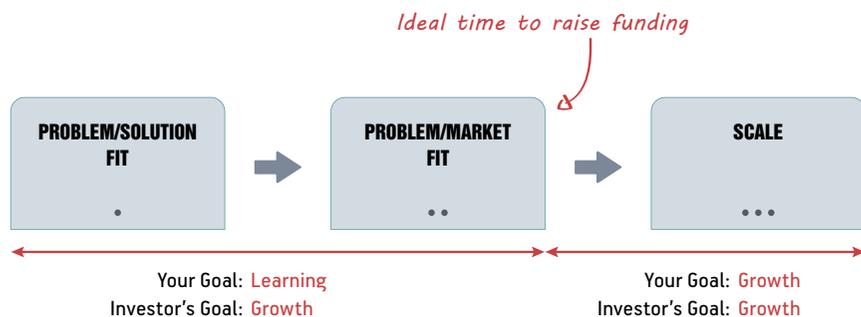


Figure 1-5. *Ideal time to raise funding*

Even though you may need to raise seed funding sooner, the ideal time to raise your big round of funding is *after product/market fit*, because at that time, both you and your investors have aligned goals: to scale the business.

*Traction is a measure of your product's engagement with its market.
Investors care about traction over everything else.*

—Nivi and Naval, *Venture Hacks*

A lot of (especially first-time) entrepreneurs feel that Step 1 involves writing a business plan/building a slide deck and getting funded. Taking several months to write and pitch a business plan to investors is not the best use of time for a startup; especially since all you have at that point is a vision and a set of untested hypotheses. Selling this to investors without any level of validation is a form of waste.

Instead, your first goal should be to establish *just enough of a runway* to allow you to start testing and validating your business model with customers.

While not the same thing, bootstrapping and Lean Startups are quite complementary. Both cover techniques for building *low-burn startups* by eliminating waste through the *maximization of existing resources* before expending effort on the acquisition of new or external resources.

Bootstrapping + Lean Startup = Low-Burn Startup

(For more, see “How to Build a Low-Burn Startup” in the Appendix.)

Step 3: Systematically Test Your Plan

With your Plan A documented and your starting risks prioritized, you are now ready to systematically test your plan. In a Lean Startup, this is done by running a series of experiments.

The Lean Startup methodology is strongly rooted in the scientific method, and running experiments is a key activity. We’ll cover steps for running effective experiments in Part 3 of the book, but for now, let’s start by defining an experiment.

What Is an Experiment?

A cycle around the validated learning loop shown in Figure 1-6 is called an experiment.

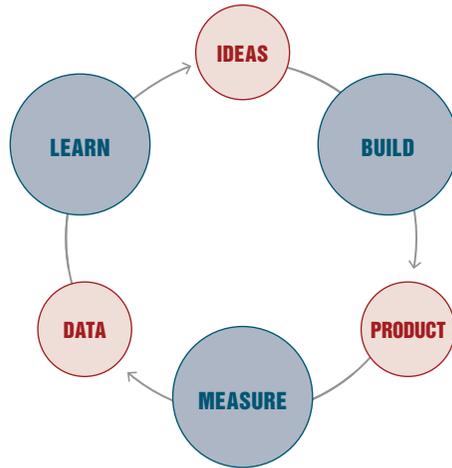


Figure 1-6. *Build-Measure-Learn loop*

The validated learning loop, or Build-Measure-Learn loop, was codified by Eric Ries and describes the customer feedback loop that drives learning in a Lean Startup.

It begins in the Build stage with a set of ideas or hypotheses that are used to create some artifact (mock-ups, code, landing page, etc.) for the purpose of testing a hypothesis. We put this artifact in front of customers and “*measure*” their response using a combination of qualitative and quantitative data. This data is used to derive specific “*learning*” that serves to validate or refute a hypothesis, which in turn drives the next set of actions.

The Iteration Meta-Pattern

While an experiment helps you validate or invalidate a specific business model hypothesis, an *iteration* strings multiple experiments together toward achieving a specific goal, such as getting to product/market fit.

Figure 1-7 shows the basic iteration meta-pattern we'll use throughout this book.

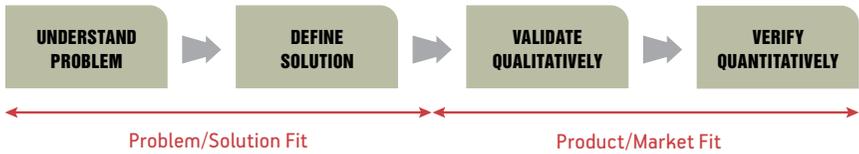


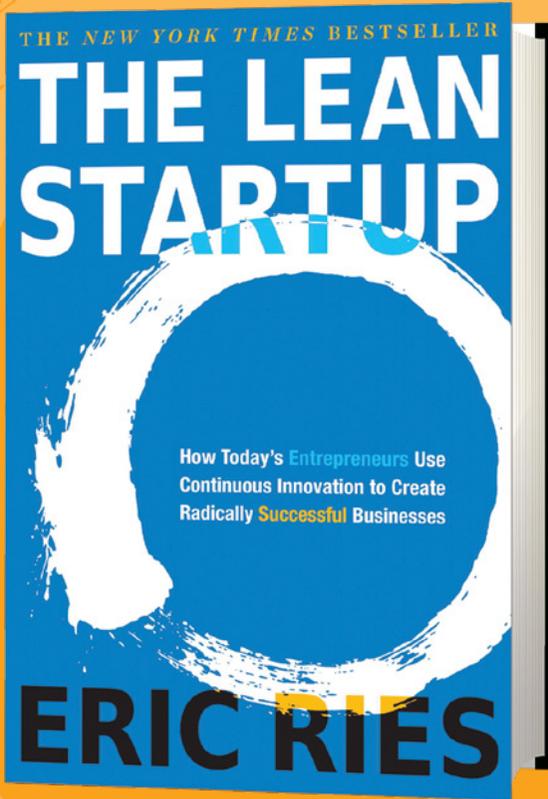
Figure 1-7. *Iteration meta-pattern*

The first two stages (Understand Problem and Define Solution) are about getting to problem/solution fit or finding a problem worth solving.

Then you iterate toward product/market fit by testing whether you've built something people want using a two-stage approach: first qualitative (micro-scale), then quantitative (macro-scale).

“Mandatory reading for entrepreneurs.”

—DAN HEATH, co-author of *Switch* and *Made to Stick*



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