



## STARTUP PLANNING

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

– Eric Reis

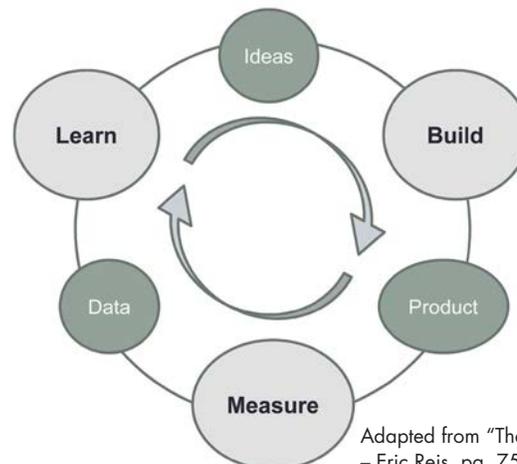
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### LET YOUR PROSPECTIVE CUSTOMERS BE YOUR GUIDE

With the publication of “The Lean Startup” (Ries, 2011), Eric Ries provided entrepreneurs with a comprehensive roadmap for building a new business through repeated cycles of rapid testing and empirically-based learning: a guide that is both inspiring and tremendously helpful. Ries’ “Build-Measure-Learn” testing cycle (Ries, 2011, p. 75), together with cohort analysis and innovation accounting (Ries, 2011, p. 121) offers a clear roadmap for startup innovators who are contemplating making the leap into the unknown.

#### “BUILD-MEASURE-LEARN” FEEDBACK LOOP

Figure 1



Adapted from “The Lean Startup”  
– Eric Reis, pg. 75

He also documents a personal history of “lessons learned the hard way” through a startup venture that nearly failed: a story that is depressing and was completely avoidable...

At various points in “The Lean Startup” Ries asserts that customer research is pointless because “customers don’t know what they want in advance.” (Ries, 2011, p. 49) While that statement is largely true on the surface, it is also deeply misleading. No one with experience in new product research would ever directly ask a target customer “What features or functionality do you want in ‘New Product X’?” ... and expect to get a reasonable answer. That’s not how good product development research is done. Instead, you ask your customers to help you understand their world, and then build something that fits well within it.

There are many variants on the theme, but stripped to the basics, productive new product development research is a two-phase process that usually starts with a category exploration, often qualitative in nature, and then continues with at least one artfully crafted concept test.

## QUALITATIVE CATEGORY EXPLORATIONS

A qualitative category exploration is generally the first step in a new product development effort. It’s relatively cheap, it doesn’t require a subscription to a syndicated data base, and it can take a variety of forms depending on budget and project needs.

Qualitative category explorations are intentionally non-directive at the outset. The objective is to allow the user to describe, in their own terms, how they participate in the category, what products they currently use, how they feel about the options available to them, and finally, the benefits (and problems) they have experienced in the category.

**Open-ended individual interviews, either in person or online** One doesn’t start an individual interview by saying, in effect: “I want you to solve my product development and marketing problems for me, so just tell me what you want...” The response will be a blank stare, not usable information. Rather the interview should start with a non-directive probe such as: “Talk to me about how you use (shop for, feel about, etc.) product category X. That’s interesting: tell me more...” Once comments pertinent to the new product development effort begin to surface, the interviewer can then drill-down with more specific, product- or feature-focused follow-up probes. The objective is to learn how potential customers view the category and how they choose to engage with it; what they find enjoyable and what they find frustrating; how they compare the available options; what caught their interest in the first place. None of these responses will immediately solve your product development or marketing problems, but all of them are good food for thought.

**Focus groups with current category users** The focus group format follows the same outline as the individual interview but allows for interactions between participants. This cross-talk between category users often can lead to serendipitous learning when participants challenge each another’s comments and preferences; when surprising, off-hand comments reveal key emotional drivers; or when participants spontaneously mention things like “If only...”, “What if...” or “I wish I had...” – and an animated conversation breaks out.

**In-home or on-site observations** The anthropological approach has similar objectives to the qualitative individual interviews: to allow the customer or end-user to demonstrate – through ordinary language and natural behaviors – how they participate in the category, how they use the available products or services, what they find appealing, what they find awkward or annoying, work-arounds they may have developed, alternatives they are considering, etc. Here again, instant solutions are unlikely but the immersive learning provides strong potential for breakthrough insights.

**Informed Category Participants** We recommend doing qualitative explorations with “informed category participants”. These are potential customers or end-users who have already wandered into the category – for whatever reason, by whatever means – and have enough experience with the existing products or services (the de facto framework for the current users’ experience) to offer meaningful comments. In Ries’ world these might be labeled “early adopters”, but we would leave the door open to leading edge or “early majority” prospects (Moore, 2014, p. 54) as well. “Informed category participants” have experience with the new category (or the one targeted for disruption), can provide meaningful observations about category dynamics and, most importantly, represent the critical opportunity for initial growth.

**Seeing the forest and the trees** Regardless of the approach chosen, the learning and insights come through inductive reasoning and inference: by reflecting on participants’ comments, by reviewing their behaviors, by noting the choices they have made (and may not have made) and finally through those glorious “Aha...!” moments. The qualitative category exploration sheds light on:

- Openings for significant product improvements.
- The potential for a breakthrough product positioning (via form, function, delivery, etc.).
- The possibility for category disruption through innovation.
- And/or the presence of critical barriers to entry.

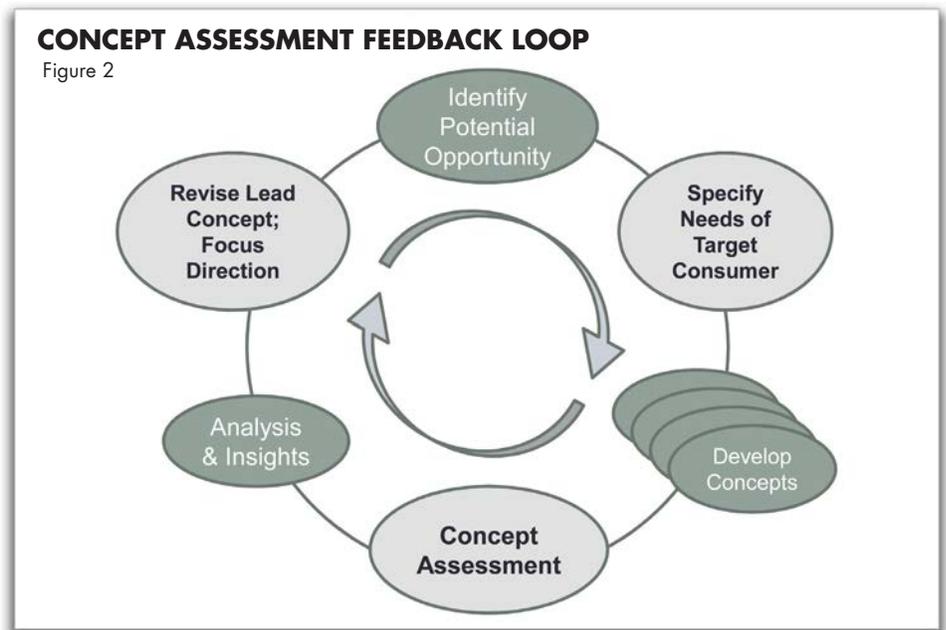
This is not a process of deductive reasoning or analytic rigor – though that may be the post-hoc explanation for the conclusions that are developed. This is an attempt to see the whole by allowing the pieces to fall into place.

## CONCEPT TESTS

The second step in the development process involves a concept test. New product concepts can take many forms and, to his credit, Ries mentions several of them. A favorite example is the video created by Drew Hudson to demo the intended functionality of Dropbox (Ries, 2011, p. 97) - an approach we have used to great effect.

**Product Concept Statements: Clearly Defined Alternatives** In its simplest form a product or service concept is a short written statement – generally accompanied by a visual element – that describes what the product or service does, lists a small number of differentiating attributes and (hopefully!) communicates the intended end-user benefit. In more elaborate variants on this theme – which we recommend – one creates a small suite of concept statements or visuals that are crafted to intentionally vary the highlighted functionality and potential end-user

benefits. These concepts are then presented to prospective customers/end-users for evaluation either singly or in rotation depending on the assessment methodology; see Figure 2.



When presented with these clearly defined alternatives, target customers can readily tell you which ones they prefer and why they prefer them. In a very real sense, these alternative concepts statements represent alternative descriptions of a possible future – a future that includes the envisioned new product, but viewed from differing functional and emotional perspectives. Asking respondents to compare alternatives and indicate a preference is the psychological underpinning of most product development research including conjoint measurement techniques. The comparisons can be structured as either qualitative or quantitative assessments.

Here, again, one learns “*what customers want*” through inductive logic and inference: studying preference patterns and their underlying drivers and allowing a holistic picture to develop. An agile product concept test can quickly identify the potential product features, attributes and benefits that will drive preference in a product category, thus providing a blueprint for the product development effort. This is possible even in a new category that is largely unfamiliar to the intended target group. For an example, see the description of Qualitative Product Feature Optimization – q-PFO, on our website:

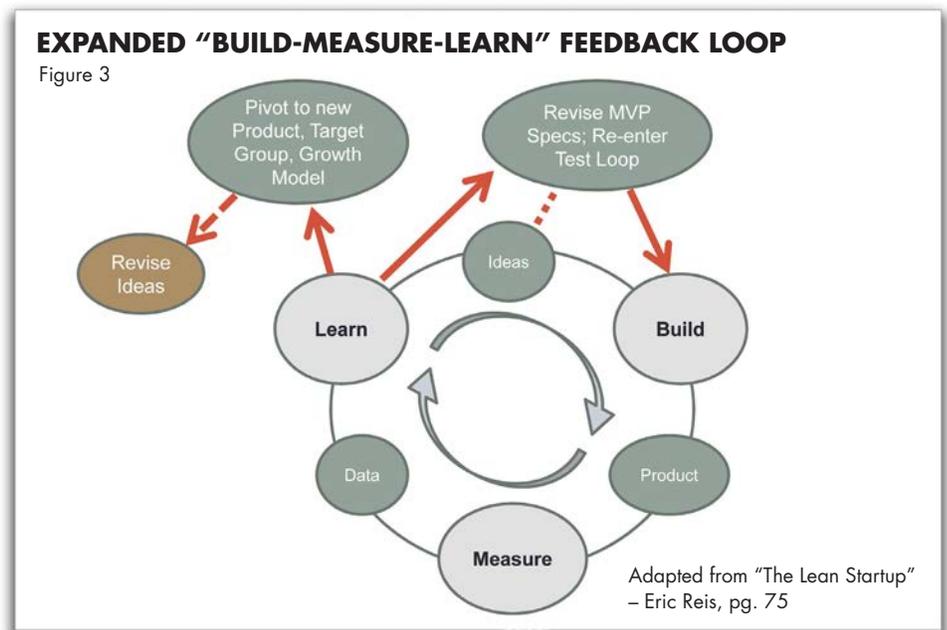
<http://www.starpointgroup.com/wp-content/uploads/2014/01/q-PFO-final.pdf>

Qualitative, quantitative or combination assessment methodologies can be employed; the final choice depends on the time-frame, the level of finish that the concepts have attained and the decision-maker’s comfort with qualitative v. quantitative techniques.

## BUILD-MEASURE-LEARN

Let’s return to Ries’ core proposition and demonstrate how the proposed “Build-Measure-Learn” feedback loop can be modified to incorporate prospective customer and/or end-user feedback. The “B-M-L” feedback loop looks like the diagram in Figure 1, which is adapted from “The Lean Startup” (Ries, 2011, p. 75).program.

**The Validated Learning Feedback Loop** The lead element in this feedback loop is “Ideas”: the vision, the inspiration, the dream that stands behind the development effort. The core element of the “Build-Measure-Learn” feedback loop is the “minimum viable product” (MVP): a stripped-down, but testable, version of the envisioned product that can be presented to prospective customers to test core assumptions regarding target customer responses and revenue growth potential. The MVP is the result of the “Build” phase of the feedback loop and it is the focus of the testing cycle. Ries specifies that the MVP should be constructed to permit a full turn of the “Build-Measure-Learn” loop with the testing cycle accelerating as the MVP is progressively refined – or the decision is made to “pivot” to another approach. Though not presented as such in the book, in practice the full “B-M-L” feedback loop actually looks something like Figure 3.

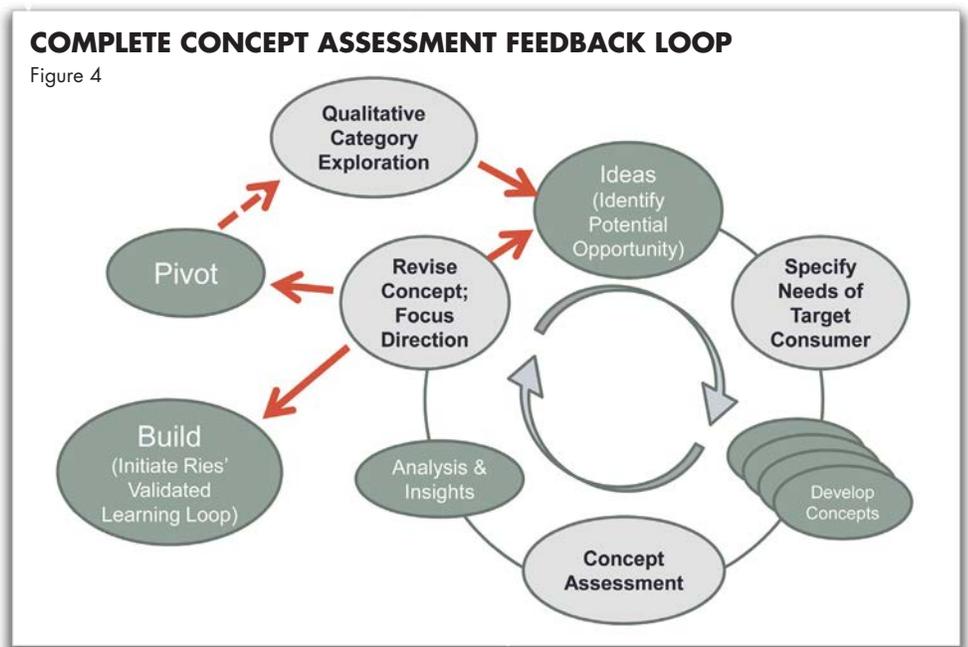


**The Concept Assessment Feedback Loop** Ries correctly emphasizes that the MVP must be testable from the customer/end-user’s perspective: do they understand it; can they use it; would they prefer it over existing options? Ries also mentions the need for eventually trying to sell a version of the MVP to potential customers – a process he labels as “the smoke test.” (Ries, 2011, p. 118) This is exactly what a well-crafted concept test is designed to do: test whether the target customer understands the offer, whether they know what to do with it and whether he/she would consider buying it (and at what price). Most importantly, a well-crafted concept test builds in diagnostics, something that is generally lacking in A/B testing. Diagnostics are designed to answer the “Whys?” (and the “Whynots?”), such as: “Why did the majority of target customers prefer Concept B? And why did they reject our preferred option, the presumed slam-dunk Concept A?” The diagnostics provide clear direction for concept refinement: they are an essential element of a well-crafted concept test. Following Ries’ diagrammatic format, a concept test feedback loop might look like that presented in Figure 2.

This feedback loop starts with identifying a potential opportunity, either through previous experience in the market, research or entrepreneurial inspiration. The next step is to specify the needs of the target customer: create the “customer archetype” that humanizes the process by identifying the lifestyle, the hopes and the

needs of the category participant that we want to engage with our new offering. Testable concepts are then developed as a series of product/service descriptions that both address the potential business opportunity and respond to the specified needs of the target customer.

As was the case with the “Build-Measure-Learn” feedback loop, we can diagram a more complete representation of the concept assessment process; Figure 4 fills in the missing steps. Here, too, the process actually starts with a prior step: a qualitative category investigation possibly supplemented by other available data (e.g., Simmons, Nielson, custom panel study data, a syndicated report, etc.). The insights gained from this prior step are used to improve our understanding of the category dynamics and to sharpen our perception of the business opportunity.



We also can elaborate the final phase of the concept assessment loop. As was the case with the expanded “B-M-L” feedback loop, the final step in this feedback loop, the “Learn” node (here labeled “Revise Concept; Focus Direction”) is a decision point. Based on the analysis and the insights gained, the project team has at least three options:

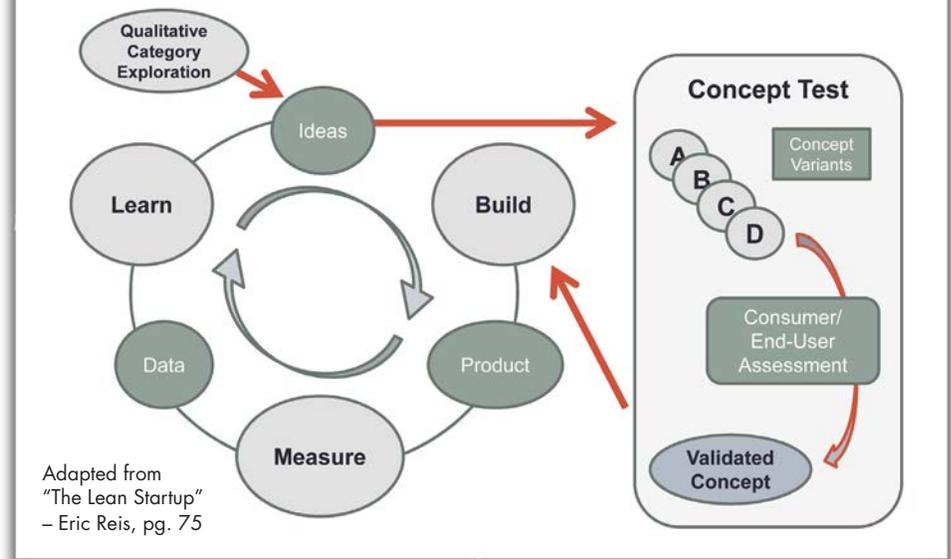
- Identify a strong concept that provides the blueprint for an initial MVP and then enter Ries’ validated learning loop.
- Revise the current working concepts and re-enter the test cycle (the concept testing feedback loop) to seek further refinement.
- Acknowledge that the current approach will not meet expectations and then “pivot” in a new conceptual direction.

## THE BIG PICTURE

**Enhancing the Validated Learning Loop** Let’s return to Ries’ initial “Build-Measure-Learn” diagram and demonstrate how and where target customer feedback can improve the validated learning cycle. Both recommended additional steps come at the front-end of the validated learning cycle where the impact can be the greatest: prior to any investment in the “Build” phase of the process.

## ENHANCED "B-M-L" VALIDATED LEARNING LOOP

Figure 5



The qualitative category exploration is designed to inform and to clarify the entrepreneur's vision of the market and of the proposed new product or service – specifically, how the startup might best fit within the framework of existing options. This, in turn, leads to the concept test phase where those ideas are translated into specific product descriptions complete with references to unique features and a clear, compelling customer benefit. By injecting customer research into the front-end of the process, the objective is to dramatically reduce uncertainty in terms of feature set, user benefit and product positioning, which form the conceptual framework for the MVP. This, in turn, should both focus and accelerate the "Build-Measure-Learn" feedback loop by eliminating non-starters before the "Build" process is initiated.

**Talk to customers first, not last!** At one point in Reis' continuing saga of "things gone wrong" he makes the following, rather startling, admission:

*"When I could think of nothing else to do, I was finally ready to turn to the last resort: talking to customers. Armed with our failure to make progress tuning our engine of growth, I was ready to ask the right questions." (Reis, 2011, p. 124)*

Why wait until you're at the point of failure before talking with your customers? For anyone coming from a marketing background, that just sounds like either arrogance or inexperience. There are three clear and compelling benefits to talking with prospective customers at the earliest stages in the startup development process.

- To understand the category from the customer's perspective – thereby quickly dispensing with invalid assumptions that lead down blind alleys at the outset of a project.
- To quickly isolate the crucial features and essential functionality that prospective users demand, and to dispense with those they see as secondary or completely unnecessary – thereby creating a blueprint for the MVP and the initial build stage.

- To identify the most compelling customer benefit and supporting product features (“reasons to believe”) that will constitute the positioning platform for the product’s roll-out. These are crucial elements for developing a marketing campaign that can effectively generate informed customer awareness and product demand.

## SUMMARY

In summary, talking to your prospective customers early in the process can dramatically reduce the uncertainty surrounding the initial stages of any startup activity. A/B testing and rapid turns of the validated learning loop are great for improving existing features, for prioritizing new features and for enhancing the user interface – once a validated product concept exists. But at the earliest phases, when it’s all just an entrepreneurial “Idea”, a small investment in upfront customer research will do a lot more to reduce “extreme uncertainty” than will coding hunches and running in circles.

## WORKS CITED

Moore, G. A. (2014). *Crossing the Chasm: Marketing and Selling Disruptive Products to Mainstream Customers* (3rd Edition ed.). New York: HarperBusiness, and imprint of HarperCollins Publishers.

Ries, E. (2011). *The Lean Startup: How Today’s Entrepreneurs Use Continuous Innovation to Create Radially Successful Businesses*. New York: Crown Publishing Group, a division of Random House, Inc



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