

# USING THE LEAN STARTUP APPROACH FOR MANAGING QUICK COMMERCIALIZATION OF A DESIRED NEW PRODUCT

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**Abstract:** *The Lean Startup approach described by Eric Ries places the human intuition at the center of the process of creating new products or services. The author of the report analyzes the problems faced by a start-up business when there is no personalized process for managing product innovation under conditions of extreme uncertainty. In this case, companies apply the "just do it" approach, which is avoided in all forms of management. The purpose of the report is to provide evidence that when using the Lean Startup approach, companies can create non-chaos by using tools to continuous vision testing. Lean is economical, uses fewer resources, and losses are minimal. It is concluded that this approach is a modern methodology for improving the management process for new product development.*

**Keywords:** *Innovation, New product Development, Ideas, Lean, Build, Data, Core, Measure*

**JEL Codes:** *O14, O32*

## INTRODUCTION

The modern industrial world is characterized by very rapid process dynamics. In practice, often by the time a product or service is tested, polished and introduced to the market, it has already become obsolete (Antonova, D. 2009). Therefore, nowadays in most scenarios it is crucial to shorten the innovation cycle as much as possible, in order to be able to take advantage of the competitive edge a new product or service can offer (Antonova, D., Stoycheva, B., 2016).

To tackle those problems, many new strategies and methodologies have emerged and one of them is the lean strategy for process management (Ries, E. 2011). It outlines the need for availability of the right mix and enough resources and is vital for all phases of the innovation process to be timely and effective without any unnecessary waste. However, usually this very condition is a main issue for startups, as they function in a different domain from incumbents in the market and face their own unique set of problems.

The most widely-used methodology for overcoming those problems is the "Lean Startup" approach and its tools, such as the business model canvas, minimum viable product/service, pivoting, validation and customer development. It aims to provide a "scientific approach to the creation of startups" (Blank, S. G., 2007, Ries, E., 2011), by encouraging entrepreneurs to do structured experiments based on the focus of their new creation and, in turn, using the feedback from those experiments for rapid iterations and necessary pivoting of the innovation idea. The proposed "lean startup" methodology actually helps outline ways of overcoming the problems faced by a start-up business when there is no personalized process for managing product innovation under conditions of extreme uncertainty.

## EXPOSITION

Starting a new innovative business, regardless of its industry, goes hand in hand with uncertainty and high probability of failure. For decades the standard used to be the formulation of a business plan, presenting it to potential investors, forming

a work team, developing the product or service, and then trying to sell it with an aggressive marketing strategy. However, recently the lean startup approach has emerged, promising to make the process of launching an innovative startup a lot less risky (Bernard, Jr. K., 2011). It puts braver experimentation and the willingness to pivot (Arteaga, R., Hyland, J., 2013) when necessary as more important than lengthy planning, iterative design (Davidsson, P., 2016) and minimum viable product over complete product development before introducing it to the market. Besides, it puts customer feedback as more important than the entrepreneur's own intuition. Following the ideology's ideas of failing fast and continuously improving and learning, many new ventures are hoping to increase their chances of survival and are turning their back on the established framework for entrepreneurship (Cooper, B., Vlaskovits, P., Ries, E., 2016).

### **Issues with Business Plans for new ventures**

A typical business plan is usually formulated long before an entrepreneur has even started to build the actual product or service, or any money is raised. Even though it is a very lengthy and thorough document, it assumes that it is possible to measure and anticipate in advance most of the unknowns of a potential venture (Udwadia, F., 1990). In reality, after receiving funding, most of the investment and development of any product is done in isolation and the first real feedback from customers is received only after launching it (Antonova, D., Stoycheva, B., 2016). This may provide a harsh check with reality for entrepreneurs, as sometimes months or years spent in development may lead to a product that the end customer is not fully satisfied with or does not need or want some of its features.

The above leads to some interesting conclusions about the current state of entrepreneurship. Firstly, practice has proven that conventional business plans are rarely able to successfully predict customer wants and needs so far in advance (Stoycheva, B., Antonova, D., 2016), so usually crafting long-term plans from the start of a venture are a waste of time and energy. Second, start-up ventures do not function like large

companies and do not develop as such (Lashinsky, A., 2018). The majority of successful start-ups are the ones that are able to face multiple failures, but quickly adapt and iterate (Maurya, A., 2012) their initial ideas based on customer feedback. While incumbents follow a business model, innovative start-ups, through trial and error, are actually continuously looking for one.

### **Lean Startup approach as a contemporary alternative**

For decades it was generally accepted that startups should try to operate in total secrecy for as long as possible as to avoid revealing their big idea or showing a market opportunity to potential competitors (Postman, N., 1993). Customer interaction and validation was only at key development points, such as beta-tests or even as late as the actual product launch. On the contrary, the Lean Startup methodology argues that in most industries openness and constant customer feedback generates better results than biased and orchestrated product or service introductions.

Furthermore, the Lean Startup approach stresses on the importance of experimentation and hypothesis validation based on the abovementioned customer interaction. It encourages entrepreneurs to limit the time spent on isolated planning and instead focus on customer interaction, development and feedback in order to test their hypotheses (Ries, E., 2019). The aim is for startups to reach as quickly and as cheaply as possible to a "minimum viable product" and, in turn, receive the customers' opinion and input on it. Then, using customer feedback the startups alter their hypotheses and assumptions, make smaller adjustments or bigger pivots to their idea if necessary, and then repeat the cycle.

In order to practice the above successfully, the Lean Startup approach uses a methodology called Agile Development. The term, which was established in the software industry, depends heavily on customer interactions and is used to create the minimum viable product to be tested. It substitutes long development cycles and the assumption of knowing customer needs and problems in advance, with iterative and incremental design, thus helping

eliminate waste in the form of resources and time.

It becomes apparent that the method discourages the usage of an initial in-depth business plan as it assumes virtually no customer contact. The idea is that continuous learning and pivoting through customer interaction is actually a more fact-based and scientific approach for startups to follow, than the large portion of guesswork that a traditional business plan is based upon. To support this statement, the Lean Startup approach introduces an important tool called "Business Model Canvas" (Osterwalder, A., Pigneur, Y., 2010), which is seen as a practical framework that can help startups search for a viable business model (Blank, S. G., 2007). By investigating the nine elements of the Canvas, startup companies can identify a number of possible hypothetical directions for development, which in turn need to be tested in the real world. The Business Model Canvas is essentially a diagram showing how a company can create value for its customers and ultimately for itself.

#### **Caveats to using the Lean Startup Approach**

As a whole, the Lean Startup approach outlines the path to a successful startup as one based around action, rigorous experimentation and seeking to find the right combination of product-market fit through trial and error. However, many entrepreneurs worry that spending too much time exploring inevitably delays product commercialization and may lead to missed opportunities. Therefore, in a world of extreme uncertainty, they regularly decide to follow the first practically viable strategy and abandon any subsequent strategic planning or willingness to pivot and adjust if needed (Brustein, J., 2015). Even though that approach can work, usually entrepreneurs who decide to follow the first promising course of action tend to put their startups at risk from competitors who investigate all possible routes and ultimately find a way to better serve customers (Stoycheva, B., Antonova, D., 2018). Furthermore, the widely-used Business Model Canvas tool can be seen to lack in specificity to some extent, making it harder for startups to identify and create the unique hypotheses and accompanying crucial experiments in order to test their

commercialization theories. It also needs to be noted that seeking validation from customers at an early stage, as the Lean Startup method suggests, can be misleading, especially if the product is revolutionary. Their feedback generally shows what they need today and will most likely steer the company to make more incremental improvements or they may even show opposition against a breakthrough idea.

The above limitations show why the Lean Startup framework needs to be carefully studied, and in order for it to be successfully applied by the entrepreneur, he or she needs to understand all inherent advantages and disadvantages and be able to adjust it based on their specific situation.

#### **CONCLUSION**

The Lean Startup approach is a modern methodology aimed at improving the managerial process for new product development when used appropriately. With its help, entrepreneurs can indeed be taught how to launch more successful startups based on real evidence. The framework distinguishes between an incumbent and a startup and makes a point that the two actually function in different domains and as such cannot follow the same rules and expect the same results - instead they need to follow different paths to success (Delaney, K., 2016, Osipovich, A., 2019, Somerville, H., 2019). The practice has shown that by using the Lean startup theory, companies can indeed create non-chaos by using the proposed tools for continuous vision testing, while using fewer resources and minimizing losses.

However, the approach has its limitations. Because originally its roots come from the tools used in the lean manufacturing, it offers less useful guidance for creating radically new products and instead inherently leads to more success when in regard to incremental innovations. The decision when to use customer validation or minimum viable products, as well as the scope of effectiveness of the Business Model Canvas offer significant opportunities for future research.

All of these suggestions, do not claim that the Lean Startup approach is ineffective, but rather that a more complete theory, combining both this method and a mixture of other managerial theories, subject to

industry and technology, can be even more effective in predicting success in a world of extreme uncertainty.

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