Lean Innovation, An Introduction, Carl Fraik, Associate Director, Product Supply Leader, Lean Innovation Leader, Procter And Gamble Ventures ("We exist to deliver new revenue streams by creating life-changing products and experiences.")

Disruption is redefining industries. The competitive reality has changed…. It's no longer about the big eating the small. *It's now about the fast eating the slow.*

Lean Innovation – Key Concepts

- *Entrepreneurs are everywhere.* You don't have to work in a garage to be in a Startup. The concept of entrepreneurship includes anyone who works within the definition of a startup: "A human institution designed to create new products and services under conditions of extreme uncertainty." This means that entrepreneurs are everywhere and the Lean Innovation approach can work in any size company, even a very large enterprise, in any sector or industry.
- *Entrepreneurship is management.* A Startup is an institution, not just a product, so it requires a new kind of management specifically geared to its context of extreme uncertainty. Entrepreneur will likely emerge as a job title in all modern companies that depend on innovation for their future growth.
- *Validated Learning.* Startups exist not just to make stuff, make money, or even serve customers. They exist to LEARN how to build a sustainable business. This learning can be validated scientifically by running frequent experiments that allow entrepreneurs to test each element of their vision.
- *Build-Measure-Learn.* The fundamental activity of a Startup is to turn ideas into products, measure how customers respond, and then learn whether to persevere, pivot or pass. All successful startup processes should be geared to accelerate that feedback loop.
- *Innovation Accounting.* To improve entrepreneurial outcomes and hold innovators accountable, we need to focus on the boring stuff (Learning Metrics) – how to set up the milestones, and how to prioritize work. This "stuff" requires a new kind of accounting designed for startups, and the people who hold them accountable.

Lean Innovation is a movement focused on *How To*.
Background: Lean Manufacturing; Steve Blank; Eric Ries.
Disruptive Innovation is *The Same As* a <u>Start-up</u>. A <u>Start-up</u> is an organization dedicated to creating something new under <u>conditions of extreme uncertainty</u>. Innovation under predictable conditions is <u>Sustaining Innovation</u>.
Lean Innovation methodology organizes all of our efforts as experiments with *a simple goal*: To determine which parts of our strategies are working and which are not.

We begin with a clear hypothesis that makes predictions about what is supposed to happen. We test those predictions empirically by giving customers a chance to make some kind of "transaction" in exchange for the product. This transaction can be an actual purchase or can be some other kind of transaction such as providing email address or agreeing or join an advisory panel.

We measure customer behavior and make a decision to act based on what we have learned. The fact that we are looking at *ACTUAL* consumer commitment to transaction is what separates

| Build – Measure – Learn Cycle |
| --- |
| Solves a Customer's problem |
| • LOVE the PROBLEM, NOT the SOLUTION |
| Searching = Learning |
| • High Uncertainty = We Don't Know! |
| Repeatable & Scalable business model |
| • Fast Iteration on commercial & technical models |

Lean Innovation from traditional market research. We are not interested in what consumers say they will do, *but in how they actually behave* when faced with a transaction decision.
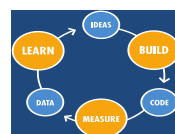
Just as scientific experimentation is informed by hypothesis and theory, *Lean Innovation* **experiments are guided by our vision to** *create a sustainable business model.*

Define Leap of Faith Assumptions (LOFA) (Most Critical Assumptions)

- Assess your Business Model Assumptions
  – Know they are all "guesses", Assume you are wrong

- What assumptions have the largest impact on likelihood of success?

- Learn on the most critical Assumptions first!

- Get out of the building and LEARN!!!
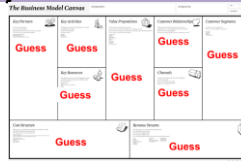
"Iteration without crisis"

Leap of Faith Assumption (LOFA): A *Leap Of Faith Assumption* is a claim in the business model or a proposed solution that will have *the greatest impact* on the likelihood of success. *If* the assumption is true, opportunity awaits! If the assumption is false, the project requires a Pivot (or a Pass). This result is called *Productive Failure*.

We can break down LOFA into 1 of 2 categories: 1. Technical Assumptions: *usability, efficiency and reliability.* 2. Commercial Assumptions: *what the customer really wants.*

Innovation Accounting = Learning Metrics. 1. Measure what consumers do, *not what they say*. 2. Avoid "Vanity Metrics" (number of visitors, gross revenue). 3. *Innovation Accounting*: Actionable, Accessible, Auditable.
Typical Learning Metrics: Conversion Rate; Cost Per Acquisition (CPA); Average Order Value (AOV); Retention Rate; Time To Pay Back.

A Minimum Viable Product (MVP) is an product (e.g. website landing page, product prototype) which allows the project team to collect the maximum amount of validated learning about the consumer with the least effort.

Customer Validated Learning with Minimum Viable Product: Learn as fast as possible if the customer will exchange something of value for the solution; MVP is an early version that allows a team to test the critical LOFAs with least effort – *NOT* limited to products. Focus on customers who shift behavior and find out "WHY"! **A small adjustment in *how you think* can greatly change *how you work*.**

THE MINIMUM AMOUNT OF EFFORT NEEDED TO COLLECT THE MAXIMUM AMOUNT OF LEARNING

Validated Learning – A Quick Guide: 1. Identify the problem (Suffering Moment) from the point of view of your TARGET CUSTOMER. 2. Identify Leap Of Faith Assumptions (LOFAs) to validate your strategies. 3. Create experiments to test those LOFAs by utilizing your MVP and other methods. Transform what you've learned from your experiments into Learning Metrics. 4. Use the trends from your Learning Metrics to decide to continue with your current strategy (Persevere), change strategy (Pivot), or Pass (end the investment).

Decide to Pivot, Persevere, or Pass: 1. "Pivot, Persevere or Pass" decisions occur many times during startup. 2. Do you believe you are making enough progress to continue or not? Pivot = a change in strategy *without* a change in vision. 3. Metered Funding from VCs: Founders request a set budget and are accountable for spending, and need to demonstrate that the strategy is working before requesting more $$. 4. Look at both Customer Validated Learning and Technical Progress.

5 Starting Questions: 1. What is the vision for this company?
2. Who is the target customer (do we know how to reach them)?
3. What assumptions (LOFAs) about customer, product, market channels, partnerships, and competitors need to be true for the project to succeed?
4. Can we learn via the Direct To Consumer (DTC) channel?
5. Can we build a sustainable business model around this product or service?