

The Lean Startup

Low Burn by Design not Crisis

Steve Blank and Eric Ries

Founding IMVU

- Customer Discovery and Validation
 - Founded company in April 2004
 - Sat in Steve Blank's B-school class Fall of 2004
 - ◆ Shipped in 6 months
 - ◆ Charged from Day 1
 - ◆ No press releases

The Economy

Before

- Cash was readily available
- Follow on financing was readily available

After

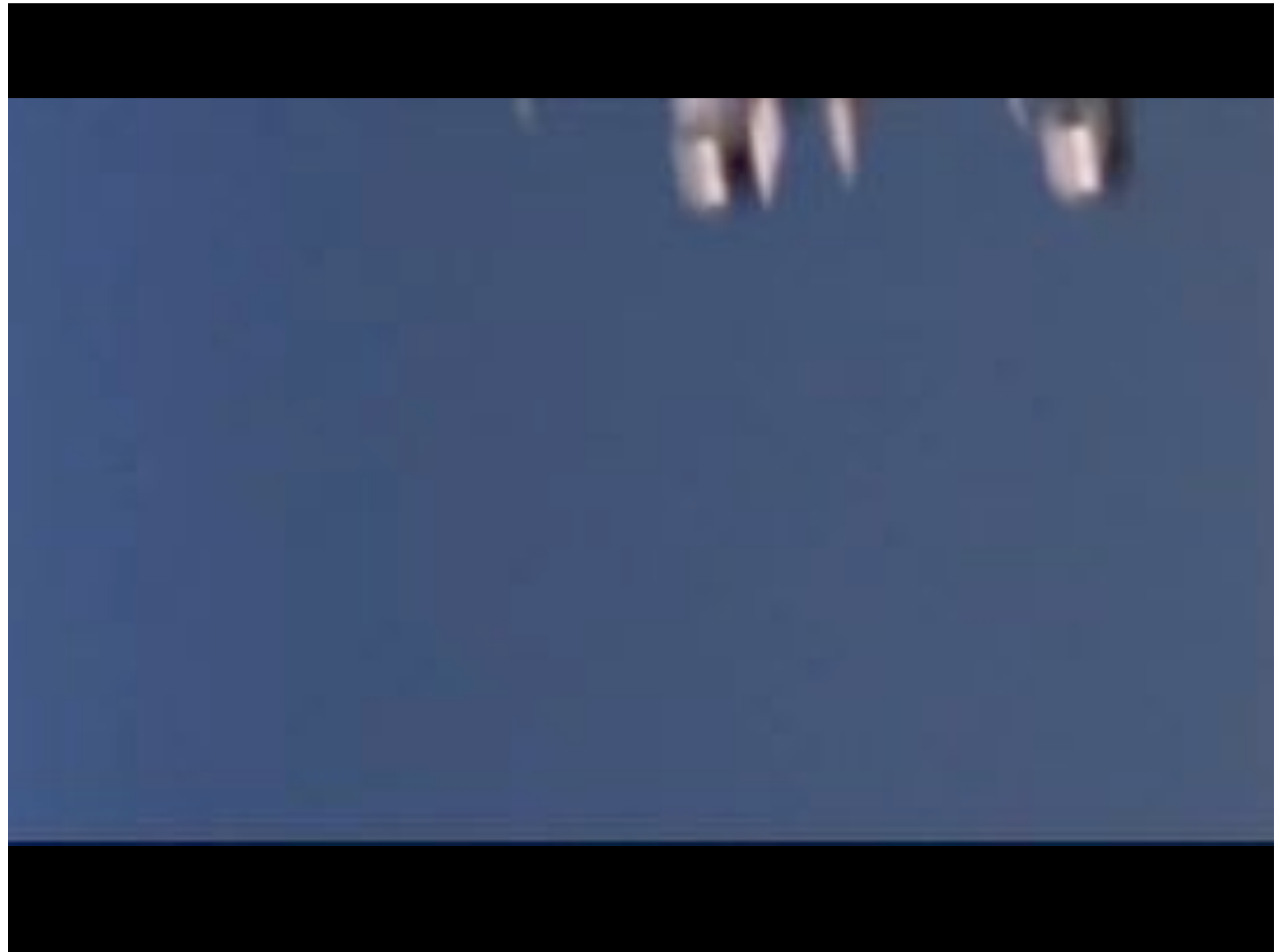
- Debt markets are tight
- IPO & M&A window closed
- VC's deep pessimism

Venture fund returns have been on decline for a decade - no end in sight

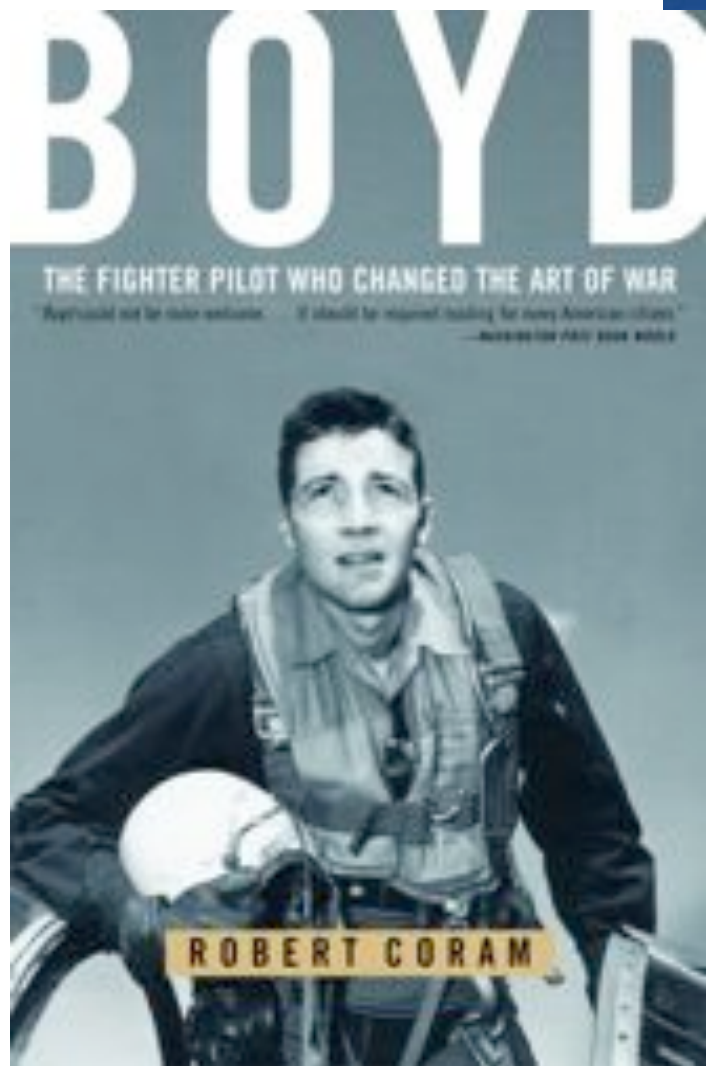
State of Startups

- High burn rate
- Swing for the fences
- Full management teams
- Assume customer is known
- Assume features are known
- Assumes growth is by execution

Traditional startups are fighting yesterday's war



Warfare Changes Forever



Boyd: Winning is about Agility



The OODA Loop

- Observe
- Orient
- Decide
- Act

Boyd Redefines the Rules to Win



- Agility requires a continuous cycle of interactions with the environment
- But you can't do it from a desk

Winners are Those Who Can Move Faster Than Their Competitors



- Winning requires constant assessment of change and ways to mitigate risk
- Iterating faster than competitors yields substantial advantage

Facing Reality at Today's Startup

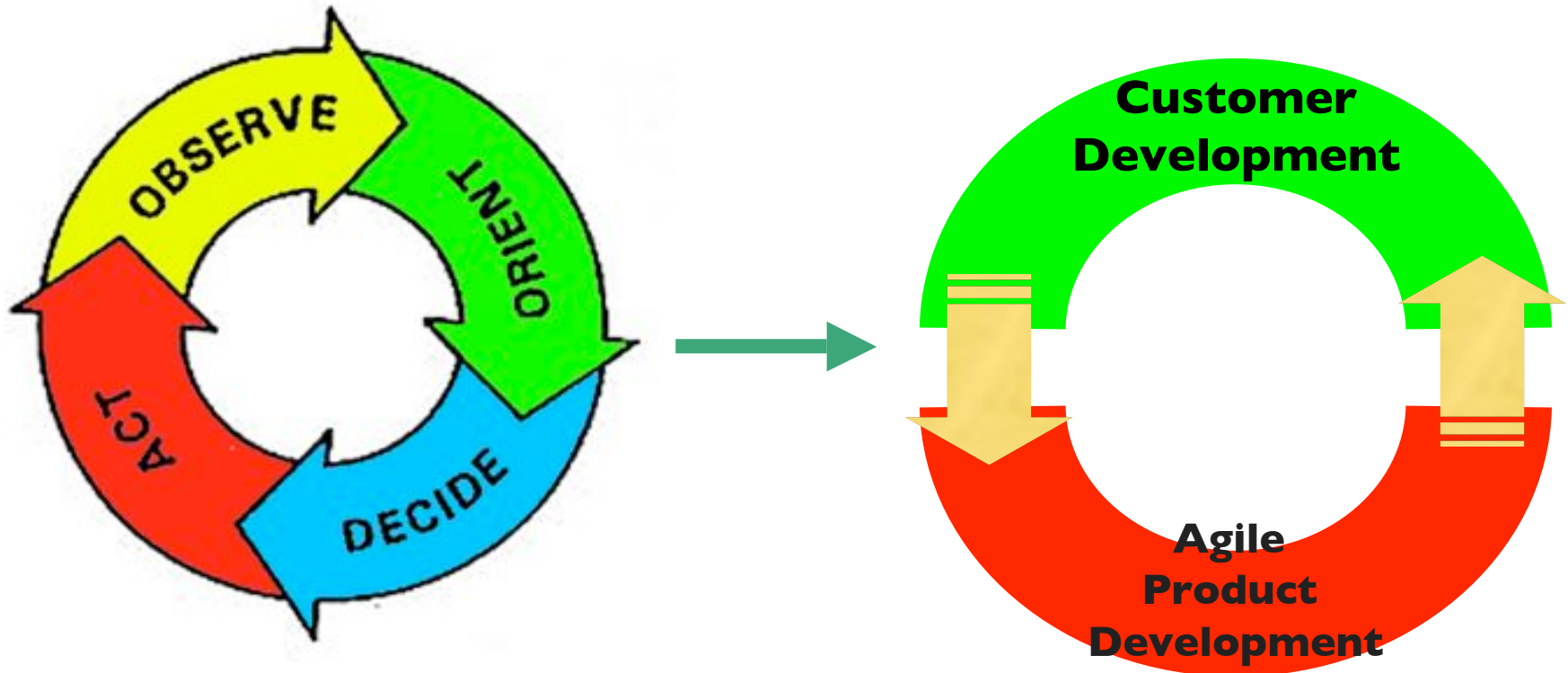
There is no 2nd Place



- Uncertain environment
- Rapid, unanticipated changes that lead to disorientation
- Constant threats to any initiative
- Burn rate (time, fuel, bullets, dollars) limits window of opportunity

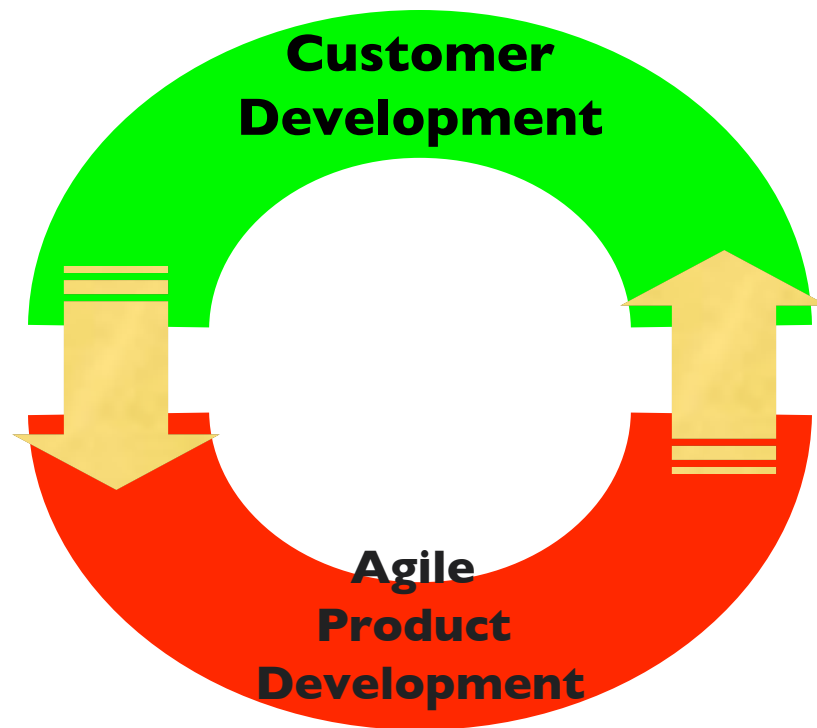
Using OODA to Create “Lean Startups”

And Changing the Startup Rules



Lean Startups

Building a New Wave of Companies in Silicon Valley



- Continuous customer interaction
- Revenue goals from day one
- No scaling until revenue
- Assumes customer and features are unknowns
- Low Burn by Design - Not Crisis

IMVU

imvu®

beyond instant messaging

Why just chat, when you can Chat in 3D!

- Dress up & stylize your avatar
- Chat in different rooms and locations
- Customize rooms with furniture and accessories
- Express yourself with interactive actions & moods

imvu brings chatting to life with fully customizable avatars and amazing 3D chat rooms! Be who you want to be, and meet the people you want to meet! You've got to get in on the fun, check out whats going on in imvu.

Search for new friends that are in your area, your age or interested in the same things. Or add your own friends with imvu!



ChoozleBooze	
Home page	
Greet	↔
Hug	↔
Flirt	↔
Attack	↔
Taunt	↔
Say cheese	↔



Get Started

Founding IMVU



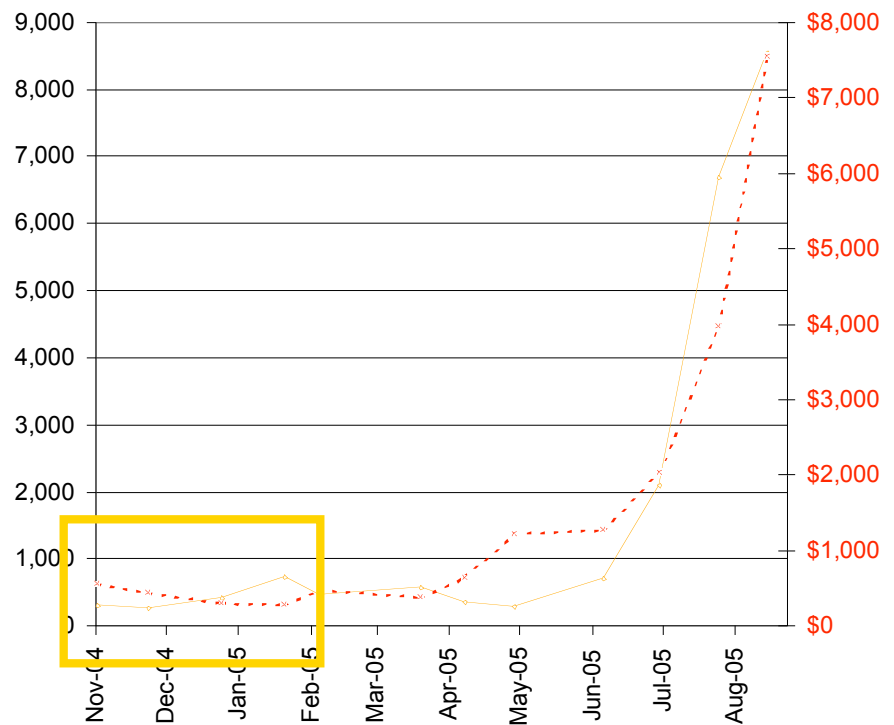
beyond instant messaging

- History:
 - Company founded in April 2004
 - Founders audit Steve Blank's B-school class Fall of 2004
- Tactics:
 - Shipped in 6 months
 - Charged from Day 1
 - No press releases
 - Ship 20 times a day
- Results:
 - Continuous iteration with customers
 - 2007 revenues of \$10MM
- **Here's what it looked like to their first venture investors**

Customer Discovery & Validation

Q4 2004

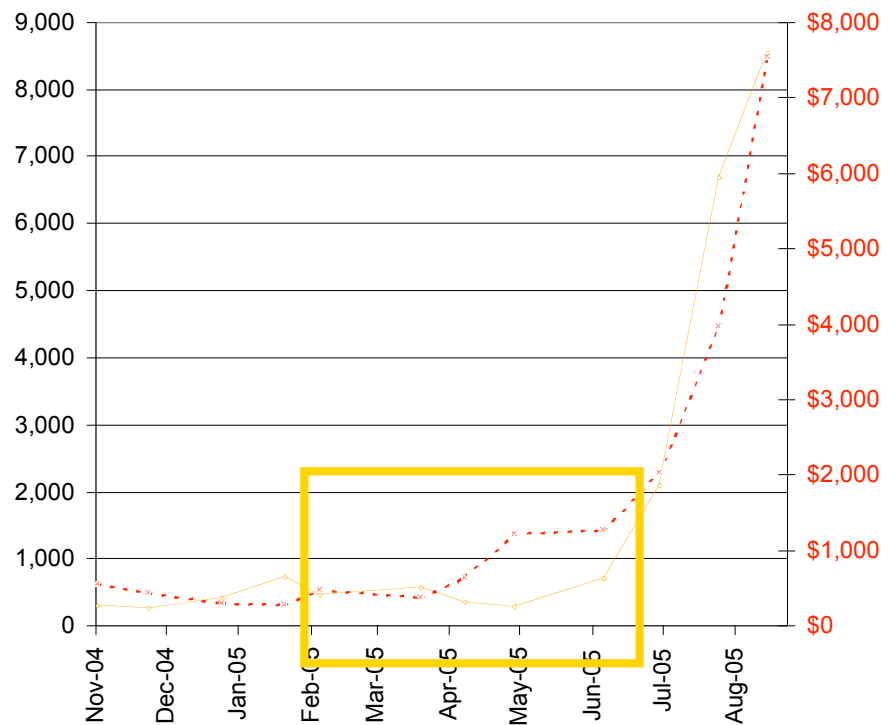
- **Product:**
 - 3D IM add-on for hanging out online with friends
 - Piggy back on existing buddy lists and IM programs
- **Our customers told us:**
 - Avatar customization is the key appeal.
 - “Add-on” concept is confusing. They actually *want* a separate buddy list.
- **So we:**
 - Ditched the IM add-on idea



Customer Discovery & Validation

Q1 and Q2 2005

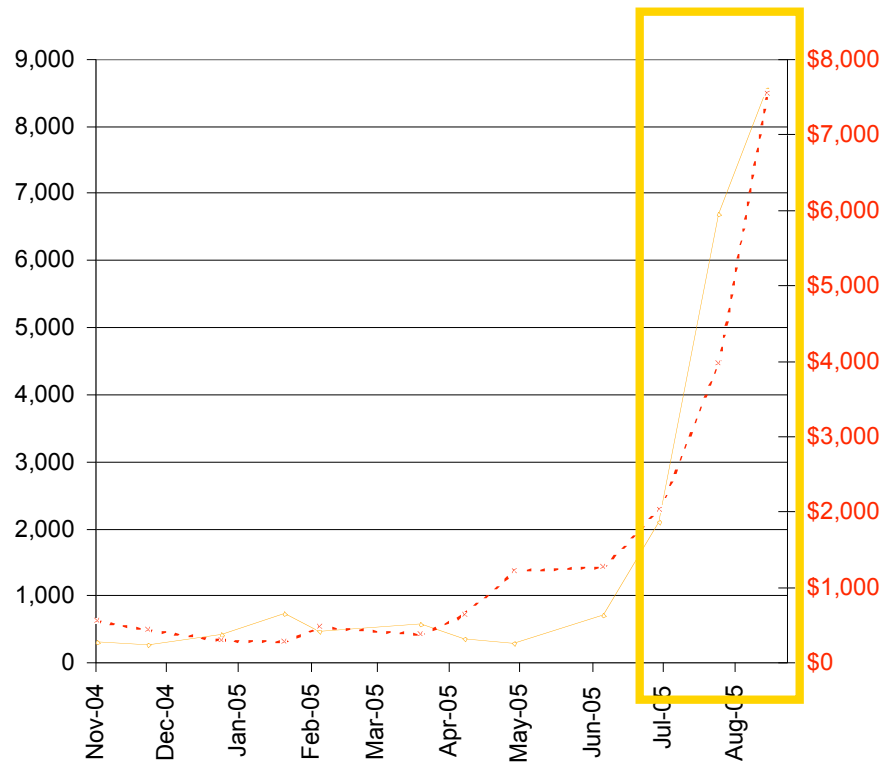
- **Product:**
 - 3D IM service for hanging out with friends *and meeting people*
 - Introduced Chat Now feature (instant matching)
- **Our customers told us:**
 - Meeting new friends is as important as talking with existing friends (50/50)
 - Not enough people on IMVU
 - Retention is a problem
- **So we:**
 - Scaled up our advertising budget (to \$40/day)
 - Learned about retention from market leaders (Cyworld, Myspace)



Customer Discovery & Validation

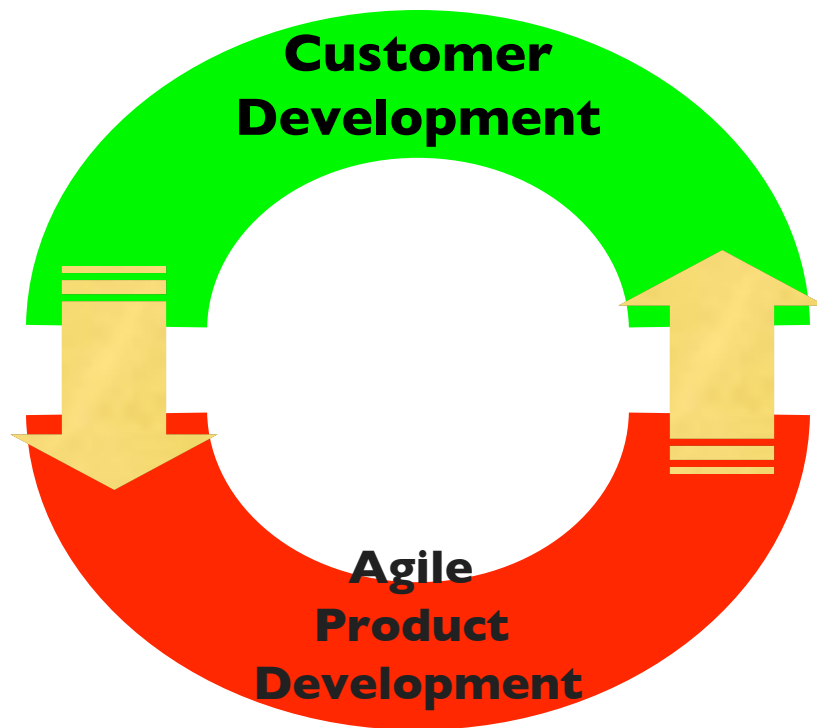
Q3 2005

- Product:
 - 3D IM service *plus avatar home pages*
 - Introduced avatar home pages, plus messages, gifts, picture galleries blogs
- Our customers are telling us:
 - Avatar home pages are highly addictive
 - 2D and 3D complement each other
 - Messages in home pages and realtime interaction complement each other
 - Want more than two avatars per window: parties and chat rooms
 - Fix the bugs; polish



Lean Startup Principles

Extraordinary Value at Low cost in Little Time



- Leverages:
 - Technology commoditization
 - Agile management practices
 - Customer Development
- Designed to test hypothesis and answer the unknowns

The Lean Startup

Agile Product Development



- Continuous cycle of Product Development
 - Product release cycle in hours not years
 - Tightly coupled with customer development
 - Minimum feature sets, maximum customer coverage

What has changed? Technology

Lean Startups Leverage Commoditized Technology

Licensed Software/
Proprietary Hardware



ORACLE

Windows Server 2008



vmware



Sun
microsystems



Open Source/
Commodity Technology

DELL



MySQL

Linux

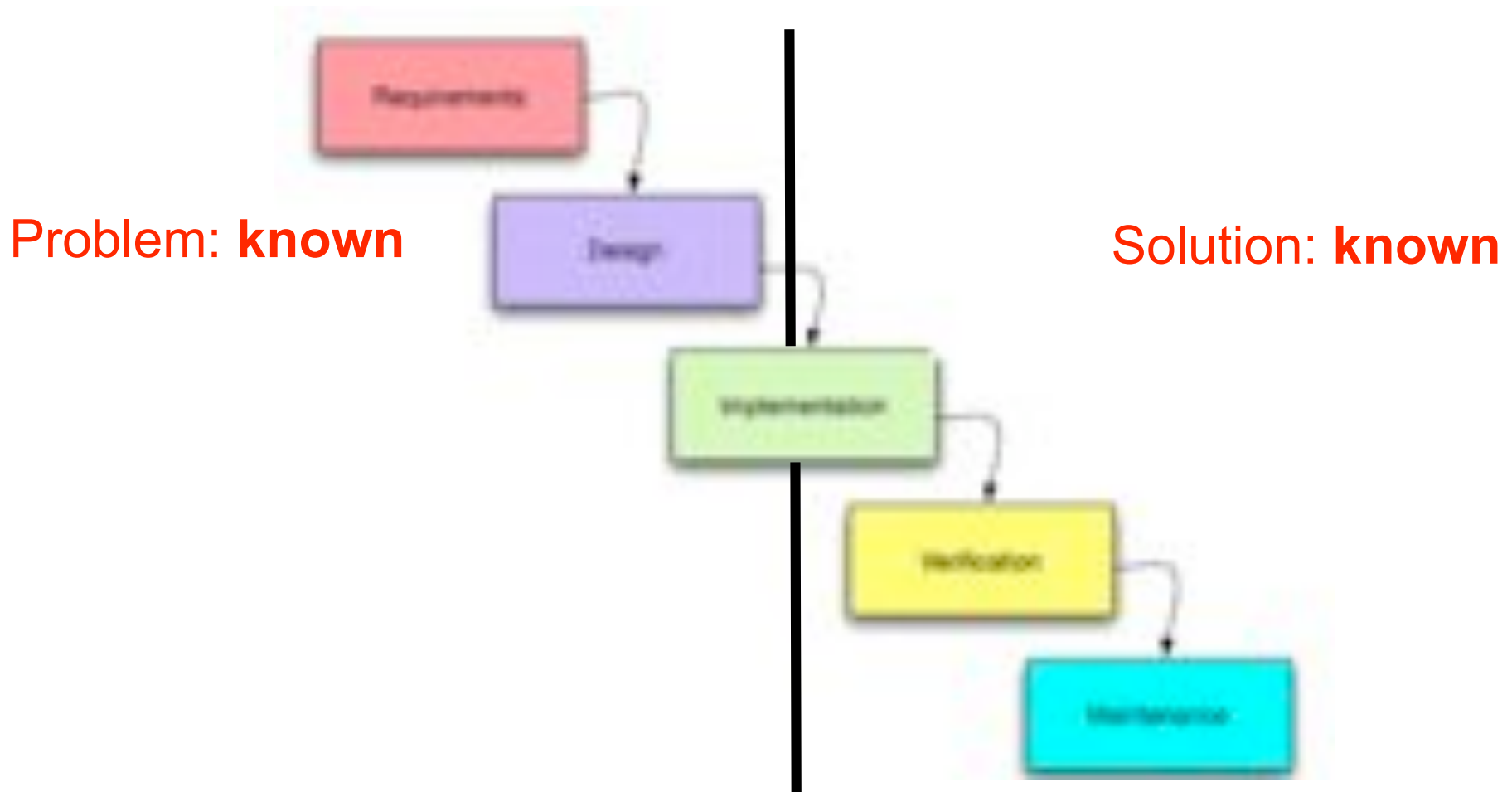


Xen
Source

Product Development a la Microsoft

Unit of progress: Advance to Next Stage

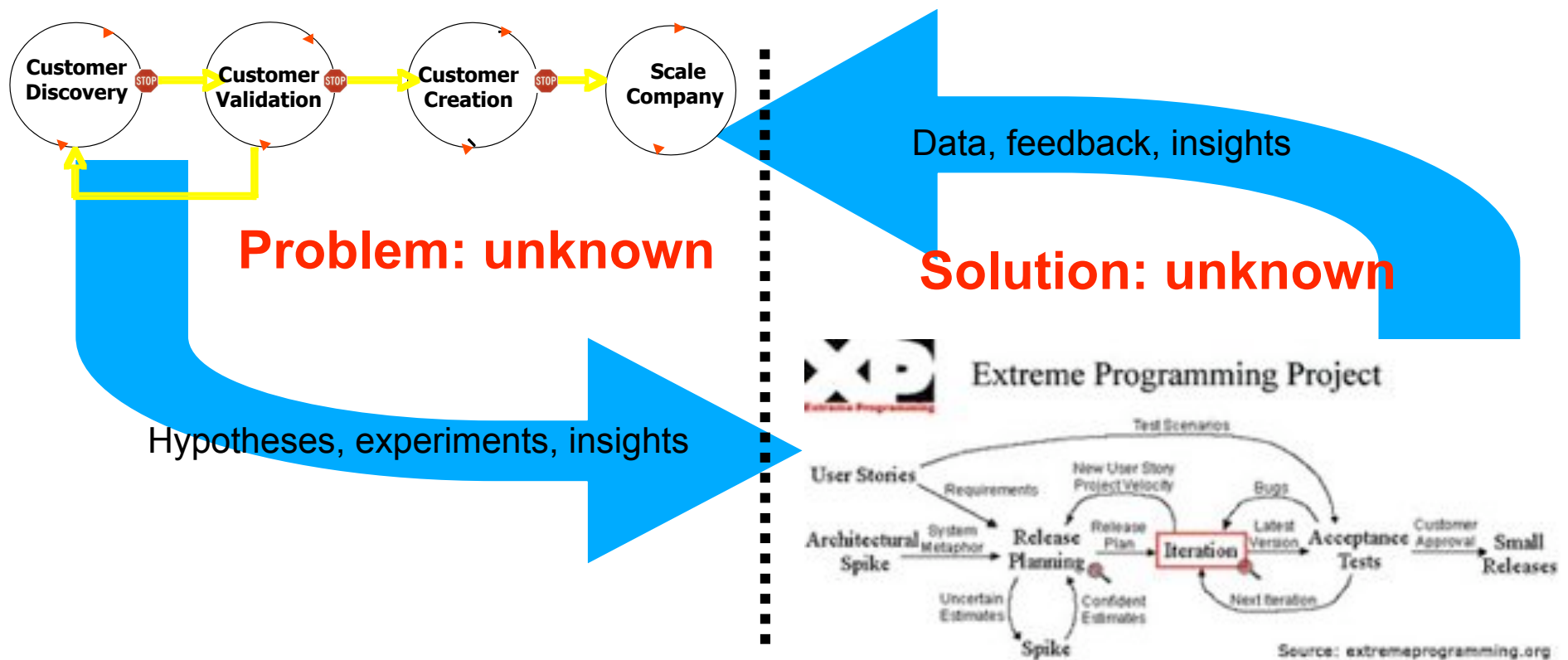
Waterfall



Product Development at Lean Startup

Assumes Customers and Markets are Unknown

Customer Development Engineering



The Lean Startup

Customer Development

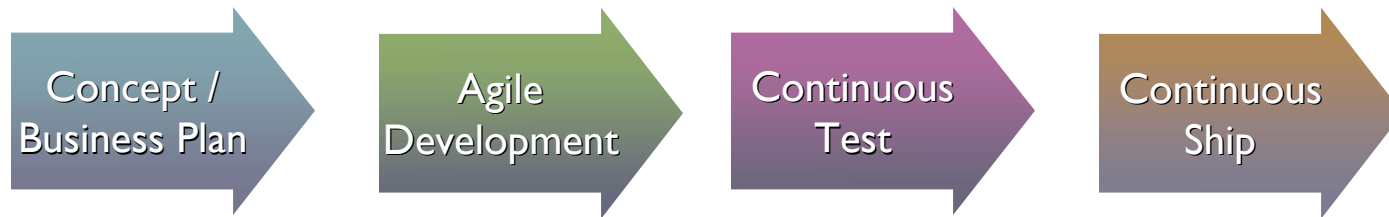


- Continuous cycle of customer interaction
 - Rapid hypothesis testing about market, pricing, customers, ...
 - Extreme low cost, low burn, tight focus
 - Measurable gates for investors

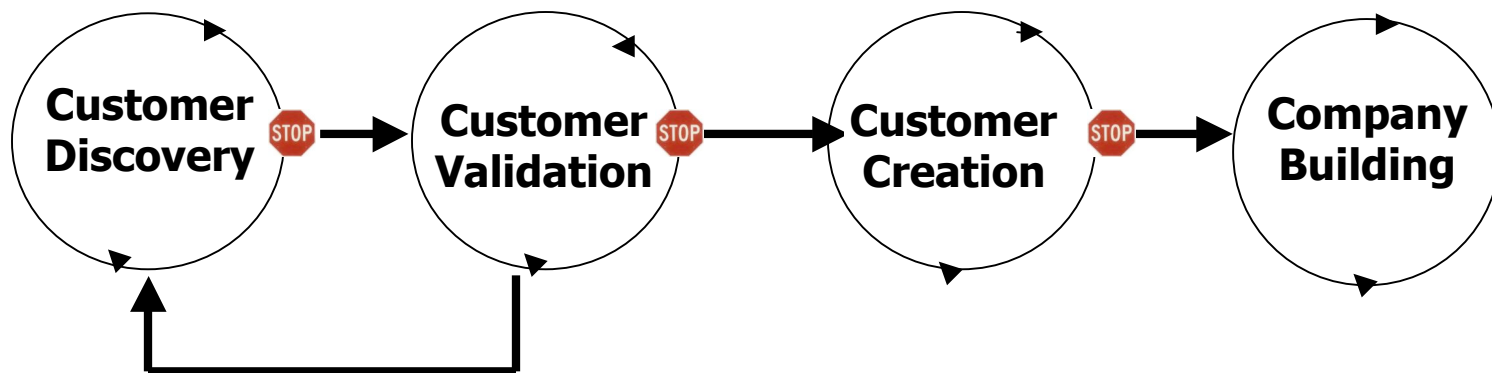
The Lean Startup

Customer Development Parallels Agile Development

Agile Development

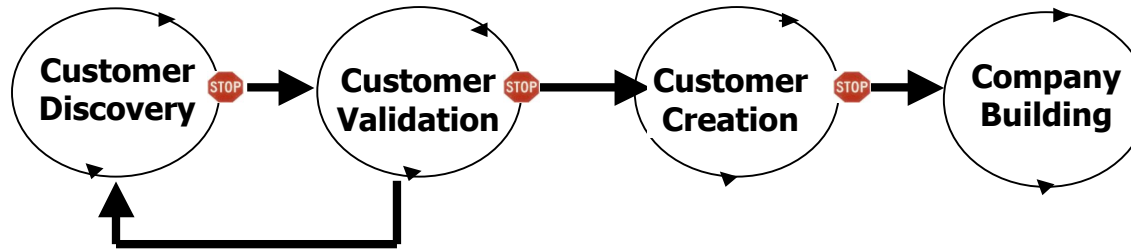


Customer Development



Customer Development

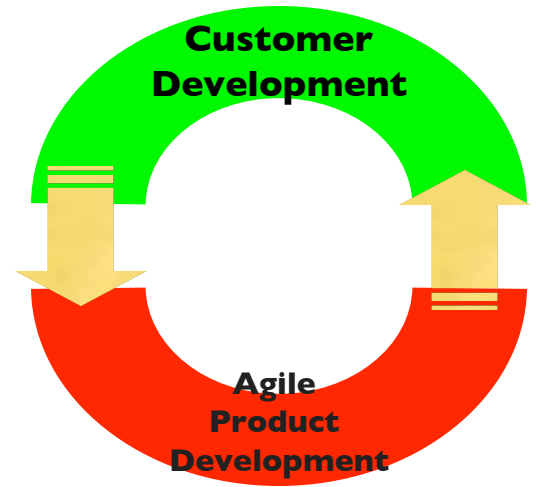
Turns Market Risk/Product Fit Hypothesis into Facts



- Discovery
 - Test hypotheses I.e. problem and product concept
- Validation
 - Build a repeatable and scalable sales process
- Creation
 - Create end-user demand and fill the sales pipeline
- Building
 - Scale via relentless execution

Lean Startup Advantages

- Builds low-burn companies by design
 - Low cost market risk testing
- Organized around learning and discovery
- Right model for current conditions



The next wave of capital efficient startups