This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert assistance is required, the services of a competent professional person should be sought.

The LeanModel Framework is a registered trademark of the author.

Library of Congress Cataloging-in-Publication Data
Schroeder, Bernhard.
   Fail fast or win big : the start-up plan for starting now / Bernhard Schroeder.—
   First Edition.
      pages cm
   Includes bibliographical references and index.
   enterprises—Planning.  2. New products.  I. Title.
   HD62.5.S3547 2015
   658.1’1--dc23 2014027516

© 2015 Bernhard Schroeder.
All rights reserved.
Printed in the United States of America.

This publication may not be reproduced, stored in a retrieval system, or transmitted in whole
or in part, in any form or by any means, electronic, mechanical, photocopying, recording,
or otherwise, without the prior written permission of AMACOM, a division of American
Management Association, 1601 Broadway, New York, NY 10019.

The scanning, uploading, or distribution of this book via the Internet or any other
means without the express permission of the publisher is illegal and punishable by law.
Please purchase only authorized electronic editions of this work and do not participate
in or encourage piracy of copyrighted materials, electronically or otherwise. Your support
of the author’s rights is appreciated.

About AMA
American Management Association (www.amanet.org) is a world leader in talent
development, advancing the skills of individuals to drive business success. Our mission is
to support the goals of individuals and organizations through a complete range of products
and services, including classroom and virtual seminars, webcasts, webinars, podcasts,
conferences, corporate and government solutions, business books, and research. AMA’s
approach to improving performance combines experiential learning—learning through
doing—with opportunities for ongoing professional growth at every step of one’s career
journey.

Printing number
10 9 8 7 6 5 4 3 2 1
The New Way: The Lean Model Framework

Every generation has its unique elements fostering entrepreneurship. Today it's the many tools and resources that make it much easier than it used to be to create a company relatively quickly with little investment risk. Cloud-based tools like Shopify or BigCommerce let you build an e-commerce website in less than a week to test a product or service in a targeted marketplace for about $35 a month. App-building tools allow you to rapidly build a mobile application and test it with consumers.

“You don’t learn to walk by following rules. You learn by doing and falling over.”
—Richard Branson, founder, Virgin Group

Farmers’ markets, independent stores, food trucks, and new types of kiosks and vending machines allow you to rapidly test your idea with a reduction in risk. New crowdfunding platforms allow you to raise capital with little personal risk. It’s not about taking your time and over analyzing opportunities. It’s about moving fast.

Let’s take each of these elements in turn:

• Lean Resources: Empower a mentality that believes less is more; look to get your company started in the leanest way possible by leveraging everything you can.

• Business Model: Take the time to really understand your marketplace, current trends, and your target customer segment, then craft a business model that not only makes sense but makes money.

• Rapid Prototyping: If you believe in using lean resources to move fast, then with the same mentality, create a minimum viable product or service that you can test with the marketplace as quickly as possible.

• Customer Truth: Although selecting the right target customer segment is critical, listening to and gathering feedback from your potential customers is crucial. Feedback from customers will often give you the insight needed to iterate, pivot, or abandon your idea.

Figure 2.1 Lean Model Framework
Ideas Are Great but Business Models Rule

For the majority of entrepreneurs, coming up with an idea or a solution to a problem is what they focus on— to the point of ignoring whether or not there is a solid business model that can be created to support a potential company. This is a critical moment for a young startup. Realizing exactly what is working and what is not working in the context of a business model could likely be the most strategic decision an entrepreneur can make. Let me give you an example. Imagine Jeff Bezos looking to create a company called Amazon in the early '90s. He sees book sales on the rise, and the Borders and Tomer feedback and input, at the end of 10 weeks they have a good idea of whether they are actually on to something or if they should abandon the idea.

You know what I like about seeing a group of students going through this process in a classroom? They rarely fall in love with an idea; instead, we vote on the best ideas in the class, then assign them randomly so their analysis and evolution of a business model is done somewhat objectively and honestly. They don’t “fudge” the results to please an ego or creatively avoid reality, as could be done in forming some business plans. Furthermore, they are not so in love with the idea that they are blind to its critical flaws. Based on their research and discussions with customers, potential partners, and distributors, if they can’t design a solid business model around the idea, they recommend abandonment. As it happens, student grades in these classes are not based on whether the students can create a successful business model, but on their recommendations of the business worthiness of those potential ideas. Love it.

Figure 3.1 Business Model Canvas
(From Business Model Generation, ©2010 by Osterwalder and Pigneur. Used with permission; www.businessmodelgeneration.com)
In fact, quite a few entrepreneurs feel they have to have an "epiphany" to come up with something unique. In reality, you would be better served looking at large markets, understanding trends, and looking for customer problems.

IDEO is an amazing company that solves problems and creates potential products for Fortune 500 firms and well-heeled startups.

If you look at their chart on opportunity (see Figure 3.2), you will see that most product or service innovation opportunities come from iterations or evolutions of current or past products or services. Very few things are revolutionary.

The cell phone was revolutionary. Perhaps also the microwave oven. And for sure, the refrigerator. Yet today’s household brands were not the revolutionaries. Google was not the first search engine. Facebook was not the first social media company. These companies offered incremental, or perhaps evolutionary, products.

And there’s

Figure 3.2 Startup Opportunities for New Products or Services
(From IDEO.org, “Human-Centered Design Toolkit,” used with permission)
Chapter Eight

Opportunity Is Here and Everywhere

In addition to teaching entrepreneurship courses at San Diego State University, I am a director on campus and I participate actively in the local startup community. So I am often approached by students and entrepreneurs (or would-be entrepreneurs) seeking my advice. More often than not, I am not interested in their idea perse. Instead, I ask about the marketplace, the industry, key trends, and their initial target segment. Most of the time, they don’t have all the answers and I send them off to acquire more information about their prospective opportunity. In this chapter, we look at opportunity from different perspectives and determine what an entrepreneur can do to prepare for such an opportunity. In particular, we’ll cover the following:

• The Entrepreneur’s Epiphany
• Targeting a Market
• Why Marketplaces Matter

Take a look at Figure 8.1. It shows the best path for startups as examining opportunities with existing products and existing customers, and looking for “problems” that customers are currently tolerating in that marketplace. It forces you to understand the marketplace and its customers and the existing problems; only then do you begin to examine potential improvements or enhancements.

For example, you look at MySpace and the social media trend to make improvements to a potential Facebook; that’s evolutionary. You examine the many complex and bulky MP3 players for sale in a growing market for music and decide to create a new player that would be small and portable; that’s revolutionary.

Figure 8.1 Innovation Outcome Paths for Recognizing Growth Opportunities

Organic growth can emerge from every quadrant of Ways to Grow. Use this tool to (a) identify the type of growth you intend to create, (b) recognize the scope of that challenge and deploy an appropriate innovation process, and (c) assess your portfolio of innovation efforts.
Innovation Outcome Paths for Recognizing Growth Opportunities

Figure 8.1

Fail Fast or Win Big

Take a look at Figure 8.1. It shows the best path for start-ups as

<table>
<thead>
<tr>
<th>Evolutionary</th>
<th>Incremental</th>
<th>Revolutionary</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Users</td>
<td>Existing Offerings</td>
<td>New Products</td>
</tr>
<tr>
<td>Evolutionary</td>
<td>Incremental</td>
<td>Revolutionary</td>
</tr>
</tbody>
</table>

Figure 8.2 Initial Target Marketplace Chart for Start-Up

Figure 8.3 Perfect startup scenario: When trends cross target customers and industry in the same marketplace.