The New Era of Lean Startups

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Stanford University
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Will talk about the basic concepts behind lean startups as well as introduce you to some of the heroes and revolutionaries who are bringing about the brave new world
Quick Background

• 1986-1990  Stanford, BS - Engineering
• 1990-1992  Silicon Graphics, Product Manager
• 1994-1997  Tivoli Systems, Director of Product Marketing
• 1997-2005  Motive, Co-Founder - Chief Marketing Officer
• 2005-2006  Foundation Capital and August Capital, Exec in Residence
• 2006-Present  Maples Investments
Point 1

There is a new type of startup model called the Lean Startup
Point 2

Lean Startups are different from Traditional Startups
Point 3

In the next decade, Lean Startups will displace Traditional Startup approaches

(as Lean Manufacturing displaced Traditional Manufacturing in the 70s and 80s)
Why You Should Care
Enables founders to get the biggest slice of the biggest pie …as soon as possible
What is a Lean Startup?

A startup that leverages technology commoditization and agile management methods...

...to achieve extraordinary value creation with minimal resources and time.
Why Now?

Lean Startups

- Cloud computing
- Open source software
- Low-cost hardware
- Search engine marketing
- Off-shore development
- Broadband penetration
Examples

How many release cycles do you think slide does a day?
How many release cycles do you think imvu does a day?
What do you think it cost to start digg?
## 5 Rules for Lean Startups

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1. **Strategy**

Deliberate → Emergent
Colin Powell
Start with a target focused vertical market niche
Launch an overwhelming “invasion” of that niche
Expand to other niches once the additional market is captured
Thomas Edison
Emergent Strategy and Experimentation

Assumes that most initial strategies are likely to be wrong; winning comes from experimenting rapidly.
Thinking like a scientist

Assumptions  Facts  Run experiments  Assumptions  Facts

Scale the winning ideas
Emergent strategy example 1

Started as a way to beam money between Palm Pilots
Emergent strategy example 2

Started as a video dating site
Emergent strategy example 3

Twitter

Started as a podcasting company
Not just for web startups...

Tim Ferriss
2. Raw Materials

Commercial HW/SW  →  Open Source Plus
Behind the scenes...

IMVU is LAMP, plus...
- Perlbal
- Memcached
- Solr
- MogileFS
- plus...

- Audiere
- Boost
- Cal3D
- CFL
- NSIS
- Pixmapic
- Python
- pywin32
- SCons
- wxPython
- BuildBot
- eAccelerator
- Linux (Debian)
- memcached
- Nagios
- Perf
- Roundup
- nd
- Subversion
- ADODB
- b2evolution
- Coppermine
- feed2js
- FreeTag
- Incuilo
- XML-RPC
- jcache
- JSON-PHP
- Magpie
- osCommerce
- phpBB
- Phorum
- SimpleTest
- Selenium

Story: Pretty normal LAMP site with lots of growth and lots of open source

Graph of growth in this time period (six months)

Trainstion: We are going to talk about a specific time period when we built out our “scalable” architecture a couple years ago
3. Market Development

Launch Runway Customer Development
Traditional approach to market development

...then get customers
Customer Development

Lean Startups create customers in parallel with creating products
Required Reading

The Four Steps to the Epiphany
Successful Strategies for Products that Win
4. Product Development

Waterfall → Agile Plus
Waterfall Approach
Agile Approach

1. Dialog with Customer
2. Generate Prototype
3. Show Customer Prototype
4. Repeat

Diagram showing the iterative process of agile development.
Agile Plus
Agile Plus drives Speed and eliminates waste
• “Deploy new software quickly (at IMVU – check-in to production is 20 minutes)

• Tell a good change from a bad change (quickly)

• Revert a bad change quickly

• Work in small batches (at IMVU a large batch = 3 days worth of work)

• Break large projects into small batches

• Don’t have the same problem twice – fix the root cause of each class of problems.”

Eric Ries – Cofounder and original CTO of IMVU
His pitch on just in time scalability is awesome
Mike Cassidy – founder and CEO of DirectHit and X-Fire

His pitch on speed is also awesome

- "Rapid product rollout/updates makes it extremely difficult for competitors to gain traction against you (2 weeks vs. 18 months)
- Rapid success builds strong team morale (which leads to more success)
- Rapid success generates more PR (which leads to more revenue, strategic partnerships, key hires, etc.)
- Fast growth drives higher company valuations when fundraising or using equity for strategic deals."

Sold DirectHit 500 days after release for $500 million
Colonel John Boyd of the US Air Force in the 50s and 60s
Aka “40 second Boyd”

• Observe
• Orient
• Decide
• Act
• = The OODA Loop

“The goal should be to to complete your OODA loop process at a faster tempo than the enemy’s, and to take action to lengthen the enemy’s loop. One tries to conduct many more loops “inside” the enemy’s OODA loop, causing the enemy to be unable to accurately perceive or react to anything that is happening to him.”
5. Financing

Traditional VC  →  Micro-Cap VC
Micro-Cap Financing: Key Concepts

• Power Angel Syndicates
• Low-burn Experimentation
• Dual-track Exit Options
Power Angel Syndicates

Get off to a good start
Capital Efficiency

aka “$500k is the new $5 Million.”
The Virtues of Capital Efficiency

Maples’ Law
“It takes more money to fund a lousy start-up than a great one.”

Maples’ Corollary
“You will spend what you raise in 12-18 months, regardless of the amount.”

Low burn also enables dual-track exit options...
Dual-track Exits

Increasing your options to win
Key Concept: Dual Track

- Early exit
- Partner with VC
- Initial Momentum
- Low-burn Experiments
- Raise Small Amount
When they raised their money, where do you think they were?
- Idea phase
- Architecture slides
- >100k users
- >1M users
Example: StumbleUpon

- Raise Small Amount
- Low-burn Experiments
- Initial Momentum
- Early exit
- March 2007
  - 2.1M users
  - 6M page views
- Partner with VC
Example: StumbleUpon

- Early exit
  - April 2007
  - eBay acquires for $75M
- Raise Small Amount
- Low-burn Experiments
- Initial Momentum
- Partner with VC
Example: Kongregate

Kongregate

Raise Small Amount
Low-burn Experiments
Initial Momentum

Early exit
Partner with VC

$1M, March 2007
From Reid Hoffman,
Joe Kraus, Joi Ito,
Brett Bullington,
Maples Investments
Example: Kongregate

- Early exit
- Raise Small Amount
- Low-burn Experiments
- Initial Momentum

**July 2007**
- 1500 games
- 800k uniques

- Partner with VC
Example: Kongregate

Raise Small Amount  Low-burn Experiments  Initial Momentum

Early exit

KONGREGATE

Partner with VC

August 2007
S6M Series A
(Greylock)
Lean Thinking and a Better World
Micro Value Chains

Micro Finance → Micro Production → Micro Markets
Early Potential Examples
## The Lean Manifesto

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One more thing...
Thanks!

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