THE NEW ENTREPRENEURIAL PARADIGM

NAIL IT THEN SCALE IT!

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Thank you

- Thank you to UDD
  - Especially Carlos, Patricio, Ernesto

- Thank you to REE Latin America

- Thank you to Chile
Introduction

- Nathan Furr
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- Ph.D., Stanford University
  - Stanford Technology Ventures Program
    - Focus on entrepreneurship and strategy

- Entrepreneurship professor
  - Brigham Young University
  - #5 undergraduate business
  - Top 20 MBA and entrepreneurship program
Overview

- Emerging paradigm in entrepreneurship

- Methodologies for decreasing risk and increasing success
Hidden Assumptions

- Hidden assumptions in the way we teach entrepreneurship negatively shaping outcomes
Billy Durant and Alfred Sloan

- Archetypal struggle that has defined many assumptions in education and entrepreneurship
Education Outcome

- Alfred Sloan and the modern corporation
  - Sloan education model for modern corporation
    - Strong: managers, planning, repeatable execution
    - Weak: innovation, change, and creation

- Sloan model works poorly for startups
  - Startups ≠ mini corporations
  - Entrepreneurs ≠ mini manage
Entrepreneurial Process Outcome

- Canonical model
  - Based on traditional product development
  - Embedded in the business plan process

- Identify product opportunity
- Create product specs
- Build alpha product
- Test product, build beta product
- Sell product to customers
Is There a Problem?

- Incredible rate of failure for new businesses
  - The vast majority of startups fail

- Failure is good when it occurs early

- Problem is failure after investing years and millions
Broken Startup Process

“Joan of Arc” Problem
Entrepreneur has a vision

Discuss with trusted friends and family

“Blind Leading the Blind” Problem
Raise money from triple F

Find an office, build a Product

Start selling the product

“American Idol” Problem

“Build It and They Will Come” Myth

2 Year / $2M Russian Roulette
Is There a Process?

- Is there a process that could improve entrepreneurial outcomes
Entrepreneurial Process Outcome

- New paradigm emerging
  - Market first, product last
  - Small financial & time investment = fail early
  - Higher success rates

- Objective:
  - Highlight the emergence of this paradigm
  - Provide you deep insight into one of these models
Key Proponents

- Steve Blank
  - Customer Development Model

*The Four Steps to the Epiphany*
Successful Strategies for Products that Win

Steven Gary Blank
Key Proponents

- Customer Development overview
Key Proponents

- Eric Reis
  - Lean Startup Model
  - Apply agile methodologies to technology development
  - Core principles
    - Minimum viable product
    - Smallest unit of progress
    - Release, iterate and test
    - Shortest path through feedback loop
Key Proponents

- John Mullins and Randy Komisar
  - Getting to Plan B
    - Tests to get to right model earlier
Key Proponents

- Seed Accelerators
  - Y Combinator, Tech Stars, Sproutbox, Seedcamp

- Focus on high-level principles
  - Customer needs focus
  - Identify assumptions and test
Key Proponents

- Nathan Furr and Paul Ahlstrom
  - Pulling pieces of process together
  - Motivating why the process matters for broad audience
  - Making the process more accessible

- **Nail It then Scale It**
  - Book forthcoming next year
Nail It then Scale It Methodology

- **Nail It then Scale It:**
  - Risk-reduction methodology to transform the entrepreneurial process
    - Dramatically re-envision product development, branding
  - **Process**
    - Apply scientific method to entrepreneurship
    - Methodology to tightly validate customer need and buying process
      - Or fail fast
What is Innovation?
Innovation?
Innovation in Entrepreneurship

INVENTION

Science

MARKET INSIGHT

Industry
Nail It then Scale It Ground Rules
Fundamentals

- Applying scientific method to entrepreneurship
- Metaphor of the scientific laboratory

1\textsuperscript{st} Fundamental:
- Where is the laboratory?
The Laboratory

“Get the heck outside the building!” –Steve Blank
Fundamentals

- 2nd Fundamental:
  - What is the goal?
  - Why do you need to remember your goal?
Setting the Stage:
Five Ground Rules

1. Intellectually Honest Learning
2. Don’t Build It, Test It
3. Keep It Cheap
4. Keep It Simple
5. Keep It Small

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Rule 1: Intellectually Honest Learning

- Common Learning Traps
  - Overconfidence
  - Motivation bias
  - Familiarity bias
  - Superstitious learning

- Goal: Listen to understand the world as it really is
  - Attitude of wisdom
  - Novice expert
  - Willingness to be wrong and to fail

- Example: Dominic Orr, CEO of Aruba Networks
Rule 2: Don’t Build It, Test It

- There is only one thing for sure in a startup
  - Whatever you believe at the beginning is wrong!

- Scientific method
  - Identify assumptions about customers & process
  - Test hypotheses with data
  - Turn hypotheses into facts

- Example: Supermac
Rule 3: Keep It Cheap

- Cash has its benefits (investment, speed)
  - But …. it always comes at a price (investors)
  - Higher burn rate
  - Failure buffer -> Overconfidence/Distraction
  - Theory of sunk costs

- Cheap, rapid experiments
  - Better to rapidly try many things

- Better to fail fast and cheaply than expensively

- Example: Classtop and the $300 software package
Rule 4: Keep It Simple

- Modern market creates complexity
- As human beings we are happier with simplicity
- Applies in business
  - Jam experiment
  - Camera sales
  - Vanguard
- Goal: Minimum viable product
- Example: Classtop
YHOO: $36 Billion Market Cap on $1.8 Billion in Quarterly Sales
GOOG: $184 Billion Market Cap on $5.1 Billion in Quarterly Sales

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Rule 5: Keep It Small

- Average venture-backed startup is 15-20 people
  - Selling but not clear exactly what

- Big teams create problems
  - Communication problem
  - Political problem

- Small teams are better for market discovery
  - Need 2-3 people to run Nail and Scale It
  - Internal commitment to keep each other honest
  - Too few will be subject to bias of interpretation
Group Activity

- Organize into small groups (2-3 people)
- Think about your entrepreneurship programs
- Identify your underlying assumptions
  - What do students need?
- How would you test them?

- Examples:
  - Entrepreneurship majors
  - Idea plan competition
  - Videos online
Nail It And Scale It Process
Nail It And Scale It: 9 Phases

Phase 1: Observation of Market Pain and Preliminary Research
Phase 2: Customer & Stakeholder Identification
Phase 3: Generate Hypothesis
Phase 4: Rapid Prototyping
Phase 5: Road Show – Prove Hypothesis
Phase 6: Check Up
Phase 7: Market Research and Financial Model
Phase 8: Build It and Go to Market
Phase 9: Scale It
Summary of Nine Stages

Product development

- Before you build anything:
  - Identify hypotheses about customers
  - Test those hypotheses as cheaply as possible
  - Identify exactly customer pain and your solution with customer

- Sales development
  - Discover exactly how customers buy
  - Develop a replicable sales model