YOUR FIRST STARTUP EXPERIMENT

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To every founder who has the courage to admit they could be wrong, and smarts to know how to deal with it in advance, and the grit to go ahead anyway

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Business plans are broken...

photo:David Shankbone

Analogy: Chris Rock and his audience

The Stress Factory.

It's an ingenious name–for a place used to refine ideas. It's also Chris Rock's favorite place to try out new material. He comes over with a yellow legal pad, and performs for roughly 50 people. Peter Sims summarizes in *Little Bets*:

> "In sets that run around forty-five minutes, most of the jokes fall flat. [Chris Rock's] early performances can be painful to watch. Jokes will ramble. He'll lose his train of thought and need to refer to his notes. And some audience members site with their arms folded, noticeably unimpressed. The audience will laugh about his flops–laughing at him, not with him.…He may think he has come up with the best joke ever, but if it keeps missing with audiences, that becomes his reality. Other times, a joke he thought would be a dud will bring the house down.…For a full routine, Rock tries hundreds (if not thousands) of preliminary ideas, out of which only a handful make the final cut."

In short, Chris Rock "stress tests" the jokes, in order to figure out which ones work for his typical audience…long before he scales up. By the time he appears on HBO, Chris feels very comfortable that the material will really speak to his audience.

> It’s common practice among standup comedians, to do dry runs of new material in an intimate club environment. Ideally, the audience will be friendly and willing to accept some untried jokes that flop, in exchange first dibs on new material.
>
> Each joke at the Stress Factory is just a “little bet”. Rock is verifying his assumptions about what tickles his audience’s funny bone. Given that he stages multiple appearances, he iterates over many rough ideas, to figure out which ones are worth polishing. Once they’re fully polished, he’s ready to push record on TV cameras.

The same analogy holds true for product ideas. You need to interact with your audience, in order to find out what they want. Most breakthrough product ideas don’t start as breakthrough ideas. Most of them need to be discarded. Of the ideas that don’t, they often start life as dull but showing promise. Ultimately, they’re refined until they become great. Occasionally, there’s a fantastic idea right from the start, yet often the product creators can’t judge that effectively.

Just like with Chris Rock’s jokes, only the intended audience can.

In that context, understanding your audience and verifying your assumptions about their needs, is critical before you even start building a product or offering a service.

If you vet bad ideas immediately and only pursue really good ideas, you will spend most of your time and money identifying opportunities that were inherently excellent. Find the ideas for which your audience has latent demand–before committing to an idea. Understand your audience, and you'll have a much easier time launching anything for them.

No entrepreneur ever writes a business plan saying that they're going to fail. The main reason you'd want to write a long document like that is to convince yourself and others that you have a fantastic business idea (on paper). While it goes into how you plan to succeed with an idea, a business plan assumes you already have an idea that's perfect. After all, the unique skill of an entrepreneur is to wonder, to ask "what if?"

Unfortunately that can lead to self-delusion. And self-delusion can easily be the your downfall, if you don't think through your challenges thoroughly enough. In addition to speed, launching a business successfully requires significant self-honesty, such as truthful tracking of your costs and assumptions, in order to evaluate your ideas accurately.

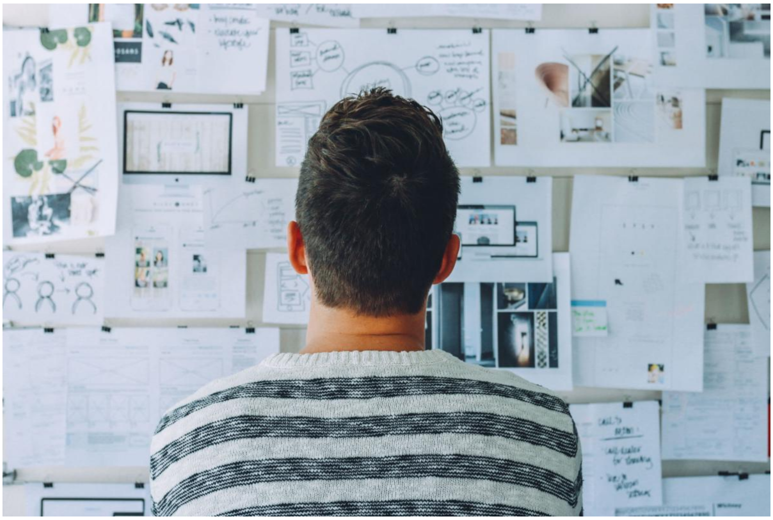
To be clear, an assumption is just a statement of opinion about the occurrence of an event or state which is outside of the control of the founders. The most important assumptions you make at the earliest stage are about your audience. Pruning bad assumptions from your thinking ultimately helps you uncover the breakthrough business ideas.

In the beginning, you honestly don't need a business plan. You don't even need a spreadsheet for your business model. For example, take a look at the wording of Intel's strategy in one of their first business plans (1968), typos and all:

> The company will engage in research, development, and manufacture, and sales of integrated electronic structures to fulfill the needs of electronic systems manufacturers. This will include thin films, thick films, semiconductor devices, and other solid state components used in hybrid and monolithic integrated structures. A variety of processes will be established, both at a laboratory and at at a production level. These include crystal

> growth, slicing, lapping, polishing, solid state diffusion, photolithographic masking and etching, vacuum evaporation, film deposition, assembly, packaging, and testing, as well as the development and manufacture of special processing and testing equipment required to carry out these processes. Products may include diodes, transistors, field effect devices, photo sensitive devices, integrated circuits, and subsystems commonly referred to by the phrase "large scale integration". Principal customers for these products are expected to be the manufacturers of advanced electronic systems for communications, radar, control, and data processing. It is anticipated that many of these customers will be located outside of California.
> Today, Intel is a multi-billion dollar company. Note that they acknowledge uncertainty, with the word "may".

To me, it looks as though they intentionally wanted to avoid committing to specific product type, while still ticking a hypothetical banker's form that they have a business plan.



Get the big picture and identify your risky assumptions

The point of business plans isn't to have a business plan. It's to make your assumptions explicit, so that you can test them. The main part of a business plan that's useful is the worksheet where you list the assumptions you're making. And the most important assumptions are those related to your audience and their preferences, based on the *Launch Tomorrow* triangle. Focus on validating assumptions, particular those which are critical to your business idea succeeding. If you have to write a business plan, e.g. to raise funding, you always have the option do that later.

At the earliest stages of a startup, Eric Ries, the author of

The Lean Startup, points out that any effort which does not directly contribute to validated learning, i.e. proving the founders' riskiest assumptions, is waste. In other words, if you are not learning quickly, you might as well be lighting dollar bills of fire and throwing them out the window. Eric Ries quips, "hidden among mundane details are a handful of assumptions that require more **courage to state-in the present tense-with a straight face**....If they are true, tremendous opportunity awaits. If they are false, the startup risks total failure." Identifying and testing these critical assumptions quickly will clarify exactly what you need to do, in order to succeed quickly. The sooner you validate your assumptions, the lower the risk of your startup failing. Confirming your gut feelings with data gives you confidence in your vision.

The importance of validation for tech startups has been confirmed by cross-sectional research. According to the Startup Genome report on why tech startups fail, 70% of startups fail because they try to scale up, without having verified enough of their assumptions. The report posits, "Premature scaling is the most common reason for startups to perform worse. They tend to lose the battle early on by getting ahead of themselves. Startups can prematurely scale their team, their customer acquisition strategies or over-build the product.” Most frequently, the primary cause of failure is that the startups wanted to grow too fast, i.e. before the fundamentals (such as problem-solution fit) in place.

Many of the wacky ideas during the dotcom era didn’t work. Splashy dotcom founders often didn’t really understand the core business proposition of their offering. If pressed, they would push back with windbag rhetoric about the “new economy”. The old rules supposedly didn’t apply. The thing is: you need to know which old rules don’t apply. Most successful businesses start on a very simple premise. If your business model’s complicated, you probably haven’t reduced the model to its essence yet. Later they evolve from there.

The main purpose of business planning an early-stage product business is to give you the space to ask yourself:

> What assumptions are we making that might not be true? Or a similar question for established companies: what assumptions are we making that are no longer true?