Ries, Eric – The Lean Startup

Crown Publishing Group, 2011 [Business] Grade ★★★★

Waste and inefficiency must be avoided in order to build a successful business. But how could it be achieved in practice? This is the problem that the author Eric Ries sets out to tackle with his book *The Lean Startup*. The Japanese businessmen Taiichi Ohno and Shigeo Shingo invented lean production in the 1980s. The aim was to avoid waste in Toyota's manufacturing. The methods have been copied by many companies since. Another term frequently used in the book is "agile", i.e. working with short production cycles using adequate tools to measure success and learn continuously.

Ries is a Silicon Valley entrepreneur. With ten years of practical experience from starting and running successful businesses he had seen what worked and what did not. Convinced that his success was due to his methods he started to blog about them in order to spread the word of his formula that he calls the lean startup methodology. That blog led to this book from 2011, with the subsequent follow up *The Startup Way* in 2017. Today he is an author, a venture capital adviser and deemed a thought-leader on innovation and strategy.

The Lean Startup is a practical guide mainly written for entrepreneurs and startup managers. It is structured in three parts: Vision, Steer and Accelerate. In the first part Ries presents the basics of lean and agile and his concept of validated learning. In the second part, *Steer*, he describes the cycle of build-measure-learn. "That didn't work, next!" By focusing on small meaningful deliveries - minimum viable products - and working with short feedback loops, waste can be avoided. This is the main idea of Ries' methodology, as long feedback cycles demand good forecasts and humans are terrible forecasters. If the time from start to end is too long it's also hard to learn from mistakes and correct them in time. The last part, *Accelerate*, deals with how to avoid bureaucracy when growing and how a company can gain a competitive advantage and invest in order to improve it.

Chapter seven and eight are the most interesting ones for the investor. By using traditional valuation techniques based on figures from the financial statements, it's very difficult to understand if a startup, or any company, is viable or not. The CFO of a startup needs to track metrics at a customer group, cohort, level in order to know if the incremental development creates value for the company. For the public investor - unlike the venture capitalist - these metrics are seldom available. The next best is arguably to look for developments across the customer base and to track KPIs such as the cost of acquiring a customer, customer retention and revenue per customer.

The things Ries writes about are not new. His main sources are experiences by him and other entrepreneurs as well as by thought-leaders in business, innovation and strategy such as Ohno, W. Edwards Deming, Clayton Christensen and Peter Drucker. The main feat of the author is that he has taken principles that have worked in manufacturing to the technology space and refined them to work efficiently there.

If one were to be critical, as one should always be, Ries doesn't give the reader much proof of the success of his method. It all makes intuitive sense and having worked with both traditional and agile principles myself I agree with most of what the author says. But as no base rates for startup success is presented and compared with data for businesses employing these principles, there is room for improvement. I hope the author supplies hard facts in a later edition.

The biggest insight for me as an investor is the reminder that the most important corporate metrics to analyze are either unavailable or difficult to find for the outsider. Studying financial statements is a start but far from the end. Being an investor is like being a detective, the search for clues never ends.

This is an enjoyable read which should interest both the investor as well as anyone involved in business.

Niklas Sävås, April 22, 2019