

Phase 3 Validation

How will you prove that you have a chance of succeeding?

Most startups fail because they build a product that nobody wants to buy. The Lean Startup approach is a way for startups to avoid this error in which the validation of the founders' ideas plays an important part.

We must learn what customers really want, not what they say they want or what we think they should want.

Eric Ries

In order to avoid expensive mistakes, founders view all their plans concerning their market and their customers to be unproven assumptions that they have to validate with the help of experiments. This approach reduces the danger of making bad decisions that are very expensive to correct or perhaps cannot be corrected at all.

Hardly any startup enters the market with the product that their founders originally conceived. During the course of the validation they find out that their assumptions were incorrect, or they discover new ideas along the way that are even more promising. Instagram, Twitter and Pinterest are all examples of this.

The Goal of Validation

The goal of validation is to remove as much market uncertainty from the founders' plans as possible. Ideally, validation would enable founders to prove that all of the assumptions that their planning is based on are correct. They would then just need to begin marketing and their product would fly off the shelves on its own.

From the point of view of investors, validation is the elimination of avoidable risks; the more reliable indications they see that a business model will work, the more they will be interested in investing.

Learning what your users want before you build it is good product development. Make sure when you do invest in a feature or solution, it's the right one.

Melissa Perri

Aspects of Validation

With the exception of the Founders' Vision (Chapter 2.4 *Founders' Vision*), almost everything that has been developed using the Founder's Playbook up to now is speculation. Therefore, all the assumptions that have been made regarding future customers still have to be validated, for example:

- The characterization and size of the Target Market
- The existence of the Customer Needs and the intensity of the wish for a better solution
- The appropriateness of the Solution Concept for serving those Customer Needs
- The attractiveness of the planned Customer Benefits
- How convincing the Value Proposition is
- The appropriateness of the various channels
- The effectiveness of the positioning
- The prices and the price model
- The ability of the product to solve the customers problem and generate enthusiasm
- That potential customers are actually prepared to buy the product

The first three topics make up Problem-Solution Fit. The corresponding hypotheses were developed in Chapters 1.1 *Customer Need*, 1.2 *Target Market* and 1.3 *Solution Concept*.

The last two topics make up Product-Market Fit. Reaching Product-Market Fit is proof that the offer will be accepted by the market and is a prerequisite for investments in growth activities (the so-called *Series A* investment).

The Build-Measure-Learn Loop

Founders who follow the Lean approach cycle through the following loop until all their critical hypotheses have been validated (or they run out of time or money):

1. Select the hypothesis that is most critical for the startup's success.
2. Design an experiment to test that hypothesis and carry it out.
3. Interpret the results of the experiment: if the hypothesis was disproved, it must be replaced by a new one.
4. GO TO 1.

This loop is often called the Build-Measure-Learn Loop. Usually, many iterations will be needed until the validation is complete. The faster the founders can cycle through the loop, the better their startup's chances of success. The ability to experiment quickly and thereby optimize their offer is the biggest competitive advantage that startup possess compared to large companies.

The ability to learn faster from customers is the essential competitive advantage that startups must possess.

Eric Ries

Many well-known companies in the last few years applied the Build-Measure-Learn loop to become familiar with their users' wishes and to successively optimize their offers. Some examples are Dropbox, Airbnb, Groupon, Twitter and Spotify. Many of these companies continue to use the strategy even after they have ceased to be startups, in order to test new features and functions. For example, Facebook has thousands of variations of its website online at any given time.

Although validation is presented as the third phase in the Founder's Playbook, founders should begin it as early as possible – for example in order to test the existence of a particular customer need in a given target market. Furthermore, some later topics in the Playbook such as growth strategies must also be tested and validated.

The Four Chapters of Phase 3

- 3.1 Customer Feedback. How will the founders learn from their first users and/or customers?
- 3.2 Test Audiences. Who are the test audiences and how will they be convinced to help?
- 3.3 Experimental Offer. What should the offer look like that is shown to the test users?
- 3.4 Market Position. What image of the offer should potential customers have in their minds?

Link

- Phase 3 at founders-playbook.de:
founders-playbook.de/en/validation/