

Andrew Warner's



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Interviews + Action Points



Eric Ries

StartupLessonsLearned.com

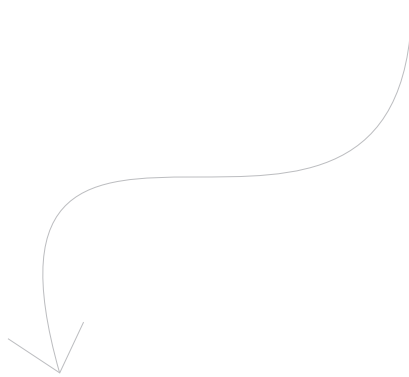


USABLE GUIDES



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Andrew Warner

founder: Mixergy.com

Mixergy is where the ambitious learn from a mix of experienced mentors. Hi, I'm Andrew Warner. In my 20s, I used credit cards and ingenuity to create a \$30+ mil / year (in sales) internet business with my younger brother. I created Mixergy to help ambitious people who love business as much as I do learn from a mix of experienced mentors. I do that by inviting speakers to live events and online interviews.

The Mixergy Mission

The Mixergy Mission is to introduce you to doers and thinkers whose ideas and stories are so powerful that just hearing them will change you.

The Mixergy Mission is to give you an alternative to the "know-it-all, professional gurus." I want to convince you that no single person knows it all. I want to show you that the best way to grow is to learn from a mix of smart people who are willing to share their expertise and experiences.

The Mixergy Mission is to infect you with a passion for business and then help you build your business.

The Mixergy Mission is to encourage YOU to have a mission, not just a startup, not just a company, but a calling.

The Mixergy Mission is to act as a counter-weight to all the small thinkers who'll try to convince you that the only reason to build a business today is so you can flip it tomorrow. The world isn't changed by people who have an eye on the exit.

The Mixergy Mission is to convince you to follow a vision so big and important that you can't do it alone. Then I want to give you a mix of wicked-smart people who will help you achieve it.

The Mixergy Mission is too big for me to achieve alone. If what I'm describing here calls to you, jump in and join me. ■

The 10 Action Points

10

Action Points

1

Avoid the great learning experience.

Earlier in his career, Eric helped build a company whose technology was impressive. "It was kind of like an engineer's playground," he says. After launching, "We were in *The Wall Street Journal* and *The New York Times* and the whole shebang." But the company couldn't get enough customers to show up because its creation was out of touch with users' needs. In the end, the "energy of all those incredibly creative and smart people went to waste." And Eric says he got "a great learning experience."

2

Don't believe in what you're working on.

Both great founders and terrible ones have the ability to "convince other people that this thing they believe in is real." This attribute is necessary because it gets "everybody in the company to have intensity, creativity, and passion for the product." But if you're building your product in secret, you'll only "get positive reinforcement from your self sense of satisfaction" without actual customer feedback. "So, you can go wildly off course even if your initial concept was only a few degrees off." Instead of empty belief, you're better off with real facts from actual users.

3

Don't follow the seemingly rational strategy.

Eric talked with a founder who wanted to hide his innovative idea because some people would "steal his idea and then he'll miss the window and the opportunity," and other people won't understand it so they'll "heap humiliation and scorn on him for no reason." With that thought process, "stealth is a perfectly rational strategy." But "stealth is kind of a customer-free zone where you get to operate without external feedback. So, all the things that external feedback might do for you are absent."

4

Embrace customers before the press.

Detach the process of “showing the product to customers” from “the marketing launch.” Eric says, “Get customers in the door as early as possible and start using their feedback to “inform your vision. Not replace your vision, but inform it. And then when you are really ready, when you actually understand what customers want,” that’s when you launch and get publicity.

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Action Points

5

Be able to predict before you promote.

When Eric and his IMVU co-founders showed their investor Steve Blank an early article about their company, instead of being proud, he went ballistic. “He was so angry with us,” Eric remembers, because they hadn’t figured out their model yet. “Even at a micro-scale, customer behavior is relatively predictable,” Eric says. “Even on 1,000 active users, if you can prove that you have a product that makes a dollar per customer per month, and it only costs you 10 cents per customer to acquire, do the math. If you can scale a business like that up to 100 million people, you are going to make an awful lot of money. And if it costs you \$1.10 to bring in those customers and you only make a dollar, then you can’t make it up in volume.”

6

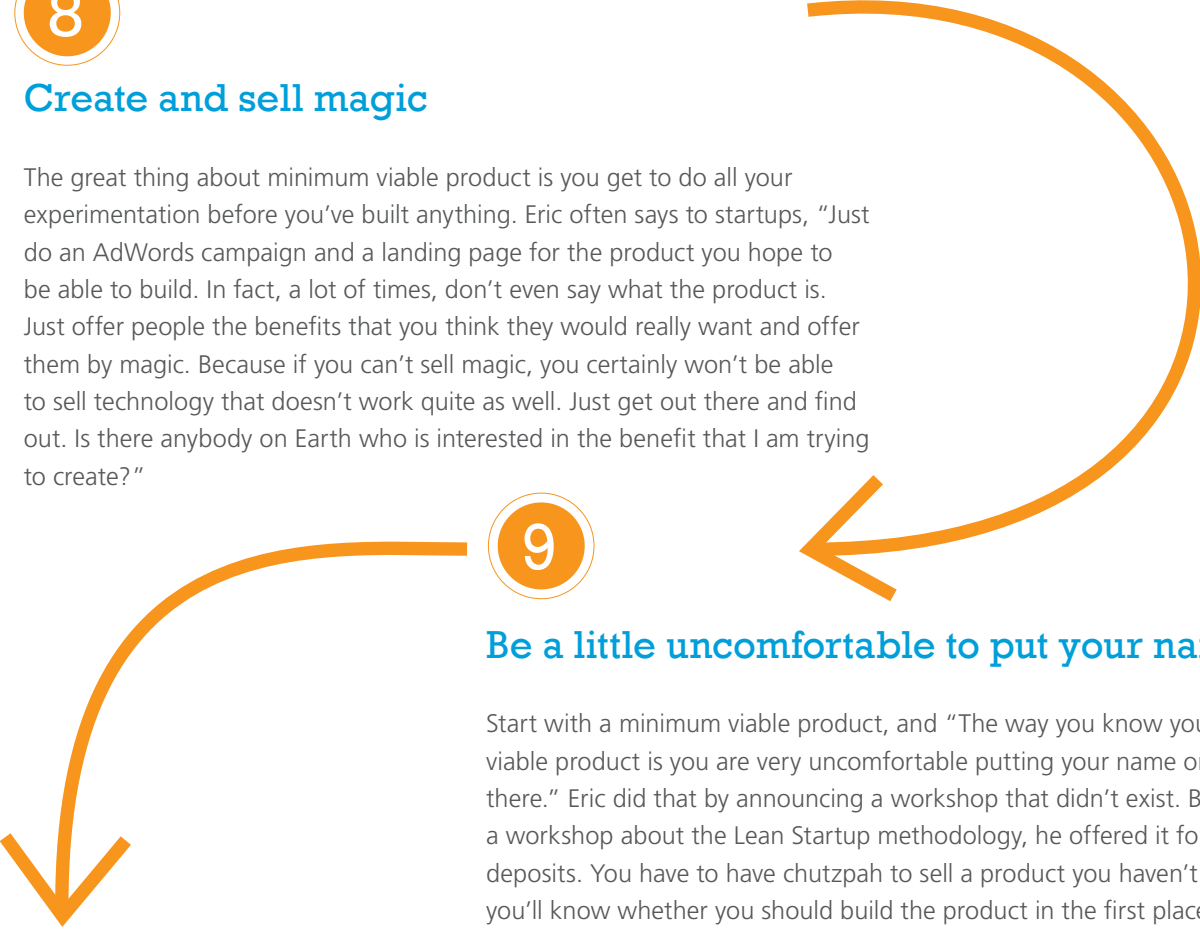
Get off the internet.

When he marketed IMVU, Eric was so baffled by why he couldn’t get enough customers, that he reached a “point of desperation.” So he took his research offline and invited potential users to his office, one at a time. “You’ve got to imagine a 17-year-old teenage girl sitting down with us to look at this product,” he remembers. “She chooses her avatar and she’s saying, ‘Oh, this is really fun.’ She’s customizing the avatar, deciding how she is going to look. She gets into it. ‘That’s really cool.’ Then we say, ‘All right. It’s time to download the instant messaging add-on.’ And she’d say, ‘What’s that?!’” Conversations like that woke Eric up to the bad assumption that his business was based on. Turns out the teenagers he was targeting didn’t like add-ons, so IMVU became a standalone product instead.

7

Pay attention to the most powerful piece of data

“I think the most powerful piece of data you can collect in a startup,” Eric says, is “whether people are willing to bust out their credit cards and hand over their hard earned money for your early product. It is just the easiest way to tell if you are dealing with early adopters who truly believe you are truly solving a problem.” But understand that there are exceptions, “situations where there are other metrics you want to use for evaluating traction.” For example, in businesses like “LinkedIn or Facebook, true network effects type business, what you want to see, much more so than the revenue you make from customers, is retention of customers over time.”



8

Create and sell magic

The great thing about minimum viable product is you get to do all your experimentation before you've built anything. Eric often says to startups, "Just do an AdWords campaign and a landing page for the product you hope to be able to build. In fact, a lot of times, don't even say what the product is. Just offer people the benefits that you think they would really want and offer them by magic. Because if you can't sell magic, you certainly won't be able to sell technology that doesn't work quite as well. Just get out there and find out. Is there anybody on Earth who is interested in the benefit that I am trying to create?"

9

Be a little uncomfortable to put your name on it

Start with a minimum viable product, and "The way you know you have a minimum viable product is you are very uncomfortable putting your name on it and putting it out there." Eric did that by announcing a workshop that didn't exist. Before he even created a workshop about the Lean Startup methodology, he offered it for sale and collected deposits. You have to have chutzpah to sell a product you haven't created, but that's how you'll know whether you should build the product in the first place.

10

Don't change your product if people don't like it

When something doesn't work, Eric says his first response is to assume "It's the messaging. Not the product. It's never the product. It's always, 'Well, we didn't say the right words in the special form.' So, do it again. Do another version with better messaging. And after three, four, five, six experiments with the messaging, you are still not getting any sign-ups?" At that point, "Reality will start to eventually permeate your brain and say, 'Wait a minute. Something just is not right. Fundamentally, this isn't the right product. Let's try a different variation.'"

10

Action Points

The Lean Startup: – with Eric Ries



Eric Ries

StartupLessonsLearned.com

Eric Ries is the creator of the Lean Startup methodology and the author of the popular entrepreneurship blog Startup Lessons Learned. He previously co-founded and served as Chief Technology Officer of IMVU. In 2007, BusinessWeek named Ries one of the Best Young Entrepreneurs of Tech and in 2009 he was honored with a TechFellow award in the category of Engineering Leadership. He serves on the advisory board of a number of technology startups, and has worked as a consultant to a number of startups, companies, and venture capital firms.



Eric Ries, who leads the lean startup movement, previously served as the co-founder of IMVU, an avatar-based 3D chat program. In this interview he shares new insights into how to keep your startup running leanly in order to listen to your customers and iterate with them. Among other things, Ries discusses how he used lean startup ideas at IMVU and how you can use them at your company.

Andrew: What is IMVU?

Eric: IMVU is a company we started in 2004. There were five co-founders at the time, including me. We came off the heels of a totally failed startup and wanted to do things a little differently. It was the first time we got to put a lot of the lean startup concepts into practice around building a product iteratively, about co-creating the product with our customers rather than telling them what to do.

To answer your question literally, IMVU is a 3D avatar, instant messaging and social networking site. It started life as an instant messaging add-on that added 3D chat capabilities to existing IM clients. Since then, it's evolved into a full social network where, instead of using your real identity as the hook for all of your networking, friend requests, gifts, all that stuff, it's a virtual identity based around a 3D avatar.

The content is all created by third parties. If you are a budding aspirational clothing designer and you

just haven't told anybody yet, you can go on IMVU, download the tools for free, and you can actually make money by selling your own clothing line.

Andrew: What was your previous failed startup and what went wrong?

Eric: Well, I try not to name names when I'm talking about failure. But I had come out to Silicon Valley in 2001 to join another virtual world company that was built using the traditional Silicon Valley linear plan.

That meant raising a lot of money and building a world class team, hiring the best and the brightest and building a technology platform that would be a real engineering contribution to the world. Patent pending technology, the works. And we built it in stealth. So we spent years and tens of millions of dollars building this platform, which was, from a technology point of view, really impressive.

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I was on the technology team. It was an engineer's playground. We had a good time and it was a satisfying thing to work on. We had a great launch. We were in The Wall Street Journal and The New York Times and the whole shebang. The only problem was, when we finally came out to launch, not enough customers showed up to buy the product to sustain the massive burn rate we had built the company up to.

I got a front row seat at that calamity. And it was really painful to see, because, of course, the energy of all those incredibly creative and smart people went to waste. It wasn't a great outcome.

But, as they say in the Valley, it was a great learning experience.

Andrew: Isn't the Valley great? In fact, isn't the culture in the technology industry great, because it does forgive so much as long as you learn something from the experience?

Eric: That's absolutely right. I saw a study recently that showed that founders who had been in a previously failed startup were actually no more likely to be successful than founders who hadn't. That is, failure itself is not actually a predictor of future success. So, we had to figure out some way to measure what people have learned from the experience. I really think that's what counts.

Andrew: You said that you spent a long time in stealth mode. What is it about stealth mode that still draws smart people to it?

Eric: It's actually a perfectly rational strategy. It has a certain internal logic to it. And all the so-called best practices that are actually lethal, the reason they are lethal is that they actually make sense if you don't look at them in the right way.

I get to meet now with a lot of entrepreneurs, both as an advisor and in my consulting practice. I was just talking to an entrepreneur recently who couldn't accept that the risk of people stealing his idea or prematurely judging it a failure were less than the risk that he was building something that nobody wanted.

His point of view was, he is building something radically new. He is a real innovator, a very smart guy. And customers don't know what they want. So, even if he goes out and does a bunch of focus groups and asks customers, "Hey, do you want this crazy new thing?" they are probably going to say no. But that's not very indicative.

On the other hand, people who understand it will steal his idea, and then he will miss the window and the opportunity. And those people who don't get it are just going to heap humiliation and scorn on him for no reason.

So, when you look at it from that point of view, I think it is actually a perfectly rational response to those fears. Who wants to be humiliated and have their good ideas stolen? And I think the only problem with that is that I think it really misunderstands the risks of pursuing it.

Andrew: Is the risk that the founder will be out of touch with the customer?



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Eric: We say, “Well, you’ll get out of touch.” I actually think the question is, “Did you ever get in touch with your customers in the first place?” Stealth is kind of a customer-free zone where you get to operate without external feedback. So, all the things that external feedback might do for you are absent. And that’s both the good and the bad things. External feedback might cause you to abandon a great idea prematurely. But also, it can help you realize that the vision that you are currently pursuing is actually a delusion.

I’ve seen this a couple of times now. Great startup founders create around them a reality distortion field. That is the ability to convince other people that this thing they believe in is real, even though, of course, it isn’t. And that’s true of great founders and really terrible ones. It’s a necessary attribute. People need to believe in what they are working on in order for employees, shareholders and everybody in the company to have the intensity, the creativity, the passion for the product.

The slight risk is that, also, sociopaths and other crazy people have that same power to convince people to believe in all kinds of stuff that has no basis in reality. So, I think the basic concept is that if you are in stealth mode, you get positive reinforcement from your sense of satisfaction for building the product, but you don’t get any actual feedback. You can go wildly off course even if your initial concept was only a few degrees off.

Think of it like a moon shot. If you launch the rocket, early on it’s pretty cheap to course-correct one or two degrees. But after you’ve gone a fair distance, those errors magnify.

Andrew: If founders shouldn’t be in stealth, should they launch right away?

Eric: People sometimes get confused because I’m a big opponent of stealth mode, generally. But I also tell startups not to launch. And some people say, “Wait a minute. The whole point of leaving stealth mode is to have that big launch where everyone says what a genius you are.”

What I try to get people to do is separate out the concepts of the product launch, that is, the showing of the product to customers, and to separate that out from the marketing launch, which is talking to TechCrunch and other press outlets where you want to deliver a strongly positioned message.

Launching the product is a good thing. Get customers in the door as early as possible and start using their feedback to inform your vision. Not replace your vision, but inform it. And then when you are truly ready, when you actually understand what customers want, what the unit economics of your business are, when you can effectively predict the future, that is when you launch.

You know exactly what is going to happen, because you’ve got the data to back it up. That’s the time to go talk to PR and put out the press release and do all the activities that we traditionally associate with a launch.

Maybe you can even have a launch party, although I don’t necessarily recommend that. And I think people don’t realize, in a lot of cases, that a marketing launch could be years after the product

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launch, because it may take you that long to actually get the concept.

Andrew: What do we call this process where we create the product and we take it out to people before the marketing launch?

Eric: The essence of it is what Steve Blank calls “customer development.” That’s the specific name that we use for the set of activities you do to try to validate the market concept before you do the big launch. And Steve breaks it down into a series of phases.

Andrew: How did you launch IMVU?

investors to say that we are doing a good job. And at the time, one of my co-founders and I were actually auditing Steve Blank’s class at UC Berkeley at the Haas School of Business. So, the article happened to come out that day. We were going up to the class. Steve was an investor in our company and we wanted to show him progress. We had this pressure to make him feel like we were doing something right.

We only had a few hundred customers, and we were making a few hundred dollars a month in revenue. It felt to us like those micro-scale results were pretty insignificant. So, we were always looking for ways to show that we were doing a good job so that our investors would be

A marketing launch could be years after the product launch, because it may take you that long to actually get the concept.



Eric: I will tell you a story from the early days at IMVU. We had a “No PR, No Press” rule, because we wanted to stay focused on customers. We felt that in the previous company we really got burned by being focused on what investors wanted and what journalists would want—what everybody but customers would want. So, we were trying to stay focused.

But we got a phone call from Wired magazine. They wanted to run an article about how IMVU was the future of instant messaging. And we thought, “Boy. That’s too good to turn down.” We didn’t have a lot of other things to show our

happy. And good investor management is very important. So we brought the article. We showed it to Steve. The debris is probably still lying around that classroom; I don’t know if they had to do a remodel. I don’t actually really remember much of what happened afterwards.

He was so angry with us, because he understood what we, even then, didn’t—this was only a few months after we started the company—that what matters is your understanding of the business model. Even at micro-scale, customer behavior is relatively predictable. So, if you can, even on 1,000 active users, prove that you have a product that



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makes a dollar per customer per month, and it only costs you 10 cents per customer to acquire, do the math. If you can scale a business like that up to 100 million people, you are going to make an awful lot of money. And if it costs you \$1.10 to bring in those customers, and you only make a dollar, then you can't make it up in volume.

So, finding out which of those two worlds you are living in with the product concept that you have, using early adopters to validate it, that is the essence of creating value in an early stage company. And it's funny, even as we were doing it at IMVU, it was so easy to get distracted, so easy to get knocked off that game, because there is intense pressure out there in the world to have something you can show mom, to say, "No, we really did do a good job. Look." And, unfortunately, it's a very dangerous force.

Andrew: When I started the interview, I mispronounced the company name. I said the letters, I.M.V.U, instead of pronouncing it "imview." That's how unaware of it I was. And that's intentional, because you are focused on your audience. You are not focused on me. I'm probably not going to dress up an avatar.

Eric: I'll leave that up to you. I don't want to call into question anything you do in private.

Andrew: So why did you call your company IMVU?

Eric: Actually, the name "IMVU" is not a very good name for the company.

It's not like we did a lot of market research to pick the optimal name. We had a policy where we felt like spending time on the name of the company was something that could really suck up a lot of time and energy.

So, we would just pick a name at the beginning of each week. We would live with every name for one week. And our agreement was, for the whole week, we would refer to the company by that name that we picked. We'd get the domain name. We'd only choose names that we thought we could get the domain. Anytime we wrote the name of the company, we'd use that name in the source code. You can still find archaic references to these old names. And at the end of the week, we'd pick a new name for the next week. And we just kept doing that until one week we just sort of said, "You know what? Let's not have the meeting next week. Let's live with this name for another week. Seems pretty good." And that's how we wound up with IMVU.

We always thought that next week we'd come up with a better name. And six months, eight months, a year later, we were still talking about, "Hey, do you think we should change the name?" "Yeah, maybe we'll get around to it." We eventually grew to accept it. And customers didn't seem to mind it. So, was it the most carefully crafted marketing strategy in the world? No. But it worked out OK.

And even after we had tens of millions of customers using the product, I think we were a top 1,000 website in the world, and we still had no press attention whatsoever. We got that phone call from Wired magazine and after that, until we

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actually launched the company and started doing PR, nobody stole our idea. Our fear was just totally misplaced.

Andrew: So how important is a name?

Eric: For some companies the name is an essential part of the strategy. For example, if you are building a product that solves an acute problem that people are searching for and there are incumbent players that have good brand recognition around that product, the right branding strategy is to name your company after the SEO term that you want to capture.

If it turned out to matter a great deal in the positive direction, we would have known that, too. But in all these cases where it didn't matter too much, it wasn't such a critical decision. There were things that mattered more. We could let our customers tell us that, and, again, not by running the world's biggest focus group, but by understanding how the actions that we took affected their behavior and then trying to understand why. What does that mean about who they are? What does it mean for the next set of activities that we should try to undertake?

Andrew: How did you develop the IMVU product?

The right branding strategy is to name your company after the SEO term that you want to capture.



If people are looking for better email and you understand them well enough to know that that's what they are searching for, then you want to call your product "BetterEmail.com," because that is going to automatically give you this intrinsic boost against the incumbents who have to have a more general brand. Right?

Microsoft can't rename the company. It has to be Microsoft. That's similar with all established companies. And there are other situations where it really does matter that the brand associations that you create for customers are the right ones. It's just, how do you know if you are in one of those situations or not? I think that if IMVU had turned out to be a lethally bad name, we would have found out very quickly, and we wouldn't have been so sanguine about it.

Eric: I can tell this story two ways, and they are both equally true. The first way is we were geniuses. We had this powerful insight at the very beginning that there was a market opportunity for a lightweight, avatar-based, self-expression and creativity product that would allow customers to create an alternate identity that they felt truly represented who they were on the inside and projected that out to the world.

Therefore, we needed to have user-generated content. We needed third party developers. We needed a great variety of expressiveness in the avatar and a bunch of other stuff like that. And I could say we had that idea in 2004. And if you look at what IMVU is today, it is now a 60-person company. It is doing quite well. All those elements



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are still core to the product. So, weren't we just the most brilliant visionaries ever?

I can tell the story a second way, which is we had this insight that IMVU is a 3D instant messaging add-on. In order to capitalize on the network effects inherent in the instant messaging business and avoid the switching costs from network to network, it would inter-operate with every IM client and would have an inherently viral distribution channel.

When I'm having a regular IM with you, we would insert a button into the UI. You could just push one button. Boom. Now, it's a 3D conversation. And of course, as a side effect of that, the other person got an invitation link to join IMVU right there on the chat screen from a friend. And so, it was going to have this viral distribution for people to use the 3D avatar chat with their friends.

Every element of that part of the vision was also present from day one. And every aspect of that is wrong.

So everything I just said is empirically incorrect. The network effect strategy was a terrible idea. Instant messaging add-on is not the right vehicle. The idea that people were going to use this primarily with their friends was mistaken. The idea that it would have this viral growth was also mistaken. Everything about that was wrong. And so, you could say, "God, the founders were idiots." Right? Can you believe we were so stupid? We didn't even understand those basic things about what we were creating.

The problem is that both of those stories are equally true. And if you had gone back to 2004 and asked us which elements of the vision are essential and which ones maybe could go by the wayside, we would not have been able to tell you the story I can tell you now. The first half is the really important stuff, and the second half is the really stupid stuff. It all seemed essential at the time.

That's the problem.

What's the vision? What's the delusion? You can't tell until you really start to put those ideas into practice and judge them against reality. And all the processes we used that helped us determine that we were on a really bad path are in that category.

Andrew: An add-on to existing instant messengers makes much more sense to me than creating yet another instant messenger, which is what you ended up doing.

Eric: To this day, I meet with investors who tell me that that's their idea for how they could improve IMVU. We should really make it inter-operate with the other IM clients. They don't understand why we don't do that.

Andrew: So, how did you know that to build onto somebody's existing instant messengers was not the right approach? And how much did you have to wrestle with yourself to accept that data?

Eric: I was the last person in the world who wanted to accept this outcome, and I'll tell you why in a second. But let me answer your question

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directly in two ways. The first is, we were really disciplined about setting overall company metrics in terms of results from day one. So, we had a sales plan for that very first product, the instant messaging add-on, from the day we put it out in open public beta. We were charging money for that product. We said, look, the first month, I think we are going to make \$300. And the next month it had to be \$350. And then \$500. We had sales targets that we had to make.

The first critical element in us discovering we had the wrong product was noticing that it became very difficult to make those sales targets. We were able to sell to our friends and some family, and we ran out of friends awfully fast.

The first critical element in us discovering we had the wrong product was noticing that it became very difficult to make those sales targets.



It was that desperation to know we've got to figure out a way to make these sales targets that took us to Google AdWords. I've written on the blog about the \$5 a day AdWords campaign. I was the first VP of marketing. I did my best to try to bring customers in. And day after day, when zero percent of customers are buying, it really motivates you to try to figure out what's wrong.

So, the first step is to get the motivation to test against reality, which is where most companies fail, because they are not really that interested, frankly, in whether people like their product or not. It's more fun to believe. I've been there. But, then,

once we were motivated to find out, we started to analyze where we were losing people.

So, are people downloading but not chatting? Are they chatting but not buying? Where's the problem?

We got good at learning to see the analytics for that. And then, when we would try to run experiments where we'd make changes to the features, we would expect those features would improve the percentage of customer conversions.

Then we noticed that the feature changes we were making weren't making any difference. We were making the product better every day, yet the

numbers were staying the same. So now we were really motivated, because we understood that we had a macro-level problem and we understand that our ability to affect that problem through product development was not working either.

And that got us to the point of desperation that we were actually willing to start talking to some customers. We would bring customers into our office and sit them down and say, "Try this new product. It's IMVU." They'd say, "Okay. That's cool." And if they were a teenager or a heavy user of IM, someone who was a tech early adopter, they would engage with us. If they were basically a mainstream person, they would look at us and say,



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“What do you want me to do?” And we would basically get nowhere. So, obviously we need to be talking to people who understand this concept and are at least somewhat early adopters for this kind of product. Otherwise, I think it’s too weird.

You’ve got to imagine a 17-year-old teenage girl sitting down with us to look at this product. She chooses her avatar and she says, “Oh, this is really fun.” She is customizing the avatar, deciding how she is going to look. She gets into it. “That’s really cool.”

Then we say, “All right. It’s time to download the instant messaging add-on.”

And she’d say, “What’s that?”

We’d say, “Well, it’s this thing that inter-operates with the instant messaging client.”

And she is looking at us and saying, “I’ve never heard of that. My friends have never heard of that. Why do you want me to do that?” It requires a lot of explanation. Instant messaging add-on is not a category that exists in your mind. But since she is in the room with us, we could talk her into doing it.

So, she downloads the product. We have her install it on the computer. And then we say, “Okay. It’s time to check it out. Invite one of your friends to chat.”

And she says, “No way.”

“Why not?”

She’d say, “Well, I don’t know if this thing is cool yet. You want me to risk inviting one of my friends to a thing I don’t think is cool? What are they going to think of me? If it sucks, they are going to think I suck.”

“No. No. But, it’s going to be so fun. Once you finally get the person in there, it’s a social product.” Just the look of dubiousness, you could see this is a deal breaker.

Of course, the first time you have that experience, you’d say, “All right, it’s just that person. Let them out. Send them away. Get me a new one.”

So, then the second customer comes in. Same thing. Third customer comes in. Same thing. And you start to see these patterns and you’re thinking that no matter how stubborn you are, there is obviously something wrong here. The customers kept saying stuff like, “Well, I want to use it by myself. I want to try it out first to see if it is really cool before I invite a friend.”

We were from the video game industry, so we understood what that meant. That meant single player mode. So we built a single player mode, and we’d bring the customer in and she’d customize her avatar and download the product. She’d go into the single player mode and we’d say, “Look. You can play with your avatar and see the cool moves they can do and dress up.” We’d do that and then we’d say, “Okay. You did it by yourself. Now it’s time to invite one of your friends.”

And you can see what’s coming, right? They are saying, “No way.”

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“Why not?”

They’re saying, “This isn’t cool.” And you can see the frustration.

We’d say, “Well, we told you it wasn’t going to be cool. That was the whole point of single player.”

And they are just looking at us, like, “Listen, old man. You don’t understand. What is the deal with this crazy idea of inviting people before I know it’s cool?” It’s just a total deal breaker.

So out of complete desperation, we said, “Okay. Fine. We’ll introduce something simple.”

your regular AOL buddy list, because that’s the inter-operability and network effects,” and all this nonsense.

And the customers are looking at us, like, “Well, that doesn’t make sense. What do you want me to do, exactly?”

And we said, “Well, just give the stranger you just met your AIM screen name, so you can put him on your buddy list.” You can see the eyes go wide.

They’re saying, “Are you kidding me? A stranger on my AIM buddy list?”

And we’d say, “Otherwise, you’d have to download

Listen, old man. You don’t understand. What is the deal with this crazy idea of inviting people before I know it’s cool?



We called it Chat Now. It was a matching thing where you could push a button and you would be randomly matched with somebody else from around the world. The only thing you have in common is you both pushed that button at the same time. We did that and all of a sudden, people were saying, “Oh, this is fun.”

Then, here’s what happened. We’d bring them in. They’d do the Chat Now, maybe they would meet somebody new who they actually thought was kind of cool. They’d say, “Hey, that guy was neat. I want to add him to my buddy list. Where’s my buddy list?” And we’d say, “Oh, no. You don’t want your own buddy list. You want to use

a whole new instant messaging client, and then you’d have to have a separate buddy list.”

And they are looking at us, saying, “Do you have any idea how many instant messaging clients I already run?”

“No. What? Two or three?”

“Duh. I run eight.”

They are already running 50 clients! I had no idea how many instant messaging clients there were in the world.



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We had this preconception that it is a challenge to learn new software, and it's tricky to move your friends over to the new buddy list and all of this other nonsense sitting in our heads. Our customers just looked at us like we were crazy. We'd be drawing at the whiteboard the strategy diagram for why this was brilliant and they'd just be laughing. "What are you talking about?"

Plus, never mind the fact that they are on MySpace. We were saying, "What's MySpace?"

We're in a mental model of how people use software and what it was about that was years out of date. So, eventually, painfully, after tons of meetings like that, it started to dawn on us that the IM add-on concept is not working anymore. And you are looking at the guy who wrote the code to do the IM inter-operability. I don't know how many tens of thousands of lines of code that was.

At the time, I was a real advocate for agile software development. I had written that code with unit tests, and I had tried hard to keep it well factored and the documentation and all of the stuff you are supposed to do for iterative product development. And it was a real revelation to me, after my co-founders finally convinced me. I was very slow on the uptake, believe me, that all the energy I put into that software, despite all the best practices we had used to build it, was still a waste. It was still a waste of time to have built it, and we had to throw all that code away. It was very painful. I was not a happy camper for some time there.

Luckily, my co-founders were able to convince me against my better judgment to do it, but it became

a real touchstone for me, a real lesson in the power of getting serious about what constitutes progress in a startup. What is waste and what's adding value? To me the biggest source of waste in any startup is building something that nobody wants.

Andrew: I'm imagining somebody reading this and saying, "That's an easy change for Eric to make. He probably had a ton of funding, a ton of people working in the company." Does it take a lot of money to do this?

Eric: No. When I say we built this, I literally mean my co-founders and I, with our own bare hands. We were not a very well-financed company at this time. In fact, the traction we were able to get at this micro-scale is what eventually enabled us to raise significant venture money and hire a much bigger team. But, in the time that we're talking about so far, this is five guys in a garage.

I've heard that concern before from bootstrapped companies: "Oh, we can't afford to do that." But, to me, that's crazy. I think you can't afford not to do it. I'm not advocating a company taking on more work. I actually think the lean approach to building a company in the end results in less work, because you eliminate the biggest source of waste, which is building stuff that nobody wants. And you discover a lot sooner if you are on the wrong track.

So, my claim is not that people need to take longer to launch their product and take longer before they get customers trying to buy it. I want them to try to get customers to pay for their product as soon as humanly possible, as soon as they have achieved what we call the "minimum viable product." And

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most people have a way over-inflated idea of what minimum really means.

Andrew: You keep talking about the importance of data. Money seems like a very valuable piece of data, whether people are buying from you or not. How important is it for startups to charge so that they could get that data?

Eric: Well, there are two levels to the answer. The level one answer is absolutely, it's very important. I think the most powerful piece of data you can collect in a startup is to understand whether people are willing to bust out their credit card and hand over their hard-earned money for your early product. It is the easiest way to tell if

what you want, much more so than the revenue you make from customers, is to understand the retention of customers over time.

If you see customer retention increasing on a cohort basis over time rather than decreasing like it normally does, that's a special case where you see customers who are trying to churn out a product, but they can't. They are literally getting sucked back in. They can't leave. They are stuck there.

There are other very special situations like that. And, of course, the ultimate special situation, say, you've invented a cure for cancer. We don't really have to ask ourselves, "Are customers going to want that?" So there are special cases.

There are some situations where there are other metrics you want to use for evaluating traction.



you are dealing with early adopters who truly believe you are truly solving a problem. Those visionary customers, in a lot of cases, are more visionary even than the founders of the company themselves. They are buying on the promise of what they think you can build in the end, not necessarily what you've already built. That's a very powerful validation that you are on the right track.

The second level answer, the more complicated and, unfortunately, truer answer, is there are some situations where there are other metrics you want to use for evaluating traction. So, in a very special case, for example, you are on LinkedIn or Facebook, a true network effects type business,

The reason I never mention that first is that entrepreneurs are very skilled at convincing themselves that they are in the special case and the normal rules don't apply to them. I always recommend trying the revenue path first and checking out if you are in the world where that can give you the information you want. If you are in that world, it is really important to know.

I was even in the category of companies that thought we were in a network effects business when we weren't. And so, you've got to be really cautious about that before you conclude that you don't need to worry about revenue.



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Andrew: Why isn't IMVU a network effect business?

Eric: It's because IMVU is a product for meeting new friends, not for hanging out with friends you already have.

You wouldn't think there is a very big difference in terms of the value proposition of our product but, in my experience, it is actually one of the most decisive choices that these kind of products have to make early on that bifurcates their whole business strategy into very different worlds. One way to think about it is a lot of these online socializing products help people deal with their social capital, that is, the number of people in their network and the set of people they can use to rely on, to reach out to if they need help or just to talk to if they are looking for somebody to listen to them.

In the social sciences, there is a whole field of study about social capital. It is a real thing. It matters. People's happiness is correlated with how much social capital they have. My way of thinking is that products like Facebook, LinkedIn, even MySpace to some extent, or traditional instant messaging, are places you can take your existing social capital and invest it for better returns. You can meet friends of friends, you can get closer with the friends you do have, and you can talk to all of your friends at once, which are all really useful new tools. But what if you don't have that much social capital to begin with? Then you are not really looking for an investment account. You are looking for ways to build new social capital. That is, brand new, out of scratch.

That is especially true if the kind of social capital you have is not the kind you want. So, of course, there are different flavors. If you are the only Goth in a suburban high school, you may actually know people, lots of people, at that school, but they don't really get you. And so, that's not the capital you want to invest. What you want to do is go find other like-minded people online, where you can meet them, and you can talk and hang out with them in a safe space where you can all be Goth together.

The term network effects is complicated there, because, of course, the more Goths that are on the network, the more valuable it would be to a new Goth that signs up. But it is much less of a pronounced effect than it is with something like Facebook, where the value is really proportional to the number of your actual friends that are on there. And you have a strong incentive to bring your friends onto the platform in order to connect with them.

With products like IMVU, my belief is that customers don't feel like it is their obligation to bring new people onto the platform. They think of that as our obligation. It's like a dating site. You don't bring your friends to the dating site. You go to the dating site because you think the people you want to meet are already going to be there.

So, the network effect is driven by the number of people you might want to meet, rather than the number of your friends who are already on there who you could connect with at any time. It is a much stronger effect in something like Facebook or instant messaging than it is for products like IMVU.

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That's my belief, anyway.

Andrew: You say that most entrepreneurs think that the minimum is way bigger than it should be. So, maybe we can help them understand what the minimum viable product should look like.

Eric: Sure. I'll mention an exercise I just did on my blog. I always feel like I have to practice what I preach. I try to force myself to do these things, even when they are a little bit uncomfortable. In fact, the essence of customer development is taking you out of your comfort zone. That's the whole point. It is much more comfortable to deal in fantasy than in reality. Reality is unfortunately very uncompromising.

going to find out what the curriculum is or what venue it is? The first thing I need to figure out is if anybody actually wants to do this workshop."

So I posted on the blog. I announced on May 29th that there would be this workshop. I asked people who were interested to take a survey. I figured it would be useful to get that information to find out what is people's level of interest in the concept of a workshop. It's a five-page survey. You go through, it asks you a few questions about how much you'd like to pay. And we can talk about minimum viable product. There was a lot about pricing and understanding of what are the pain points you are trying to solve for people.

In fact, the essence of customer development is taking you out of your comfort zone. That's the whole point.



So, I had this idea to do a workshop. We were going to do a lean startup workshop. The idea is to do an all-day, in-person event in San Francisco and then potentially in other cities, where we'd get like-minded entrepreneurs together and work on being able to talk about these concepts in depth and try to build an action plan for how any given entrepreneur could bring this back to their company and make it more lean.

As a blogger, you have these ideas periodically. What's the minimum viable product for a lean startup workshop? I started working on the curriculum and I started working on finding a venue. And I said, "Wait a minute. How is anybody

The last page of the survey, it said there is going to be this workshop. It is going to cost this much. It is going to happen on this date. Here's approximately what is going to happen. And if you'd like, you could put down a deposit to reserve your spot in the workshop in advance. I think the deposit was \$100—I don't remember exactly but the workshop was going to be expensive. I picked a price point where I figured probably nobody would be willing to pay that much for an unspecified, vague workshop, but let's find out whether, today, there are early adopters who have bought into the concept sufficiently that they want to be there and want to be a part of that first wave of evangelists for this idea.



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I was totally blown away by the number of responses that we got to that. I predicted, at the most, three or four people, maybe would be willing, as a favor to me, maybe to check it out. But I am now struggling to find a venue where we can accommodate all of the people that wanted to come to the workshop.

So, that's great. That's real exciting. But I was really nervous about it. The way you know you have a minimum viable product is you are very uncomfortable putting your name on it and putting it out there and having the courage to say, OK, even though I haven't set the curriculum, even though I don't know where the venue is going to be, even though I am only vaguely aware of the fact that I think people want to do this thing, nonetheless I have the chutzpah to say, no, it's going to happen on this date. It costs this much. Who wants to come?

I would have viewed it equally as successful an experiment if nobody had signed up. But what did happen is a ton of people signed up. Either way, I would have learned a lot about what it is that customers want or don't want. I had a couple hundred people take the survey, who gave me their phone numbers and said, "Yeah. I'd be happy to talk to you if you have questions."

So I can call those people up and say, "Hi. Can I have 20 minutes of your time? Why did you or did you not want to pay for this thing?" And I could really start to understand what the value is that people think they would get out of a workshop. And is a workshop even a good venue for talking about a lean startup? So far, it looks pretty good, but we'll see.

Andrew: Why a survey before the order form? Wouldn't it have been more like the actual product if you had an order form on the page?

Eric: Yeah. That would have been better. I didn't have the courage to do that. I had to hide. I say how important it is to go out on a limb and put yourself out there. And there was a limit to what I could talk myself into. It felt so outrageous.

Actually, that's the point I want to make, that it doesn't really matter the form in which you do it. The minimum viable product is a matter of judgment. There is no right answer and it's not a one-time thing. If nobody had signed up for that, imagine nobody had taken the survey or even read the blog post, then I would have said, "OK, I need to go experiment at that level." Or let's say everyone had taken the survey but nobody paid. Then that would tell me the next iteration of this I need to go. And people had put down a deposit to reserve their spot. But now I actually have to go collect the money from them and get them to come to the workshop. There is a lot of stuff still to happen. These minimum viable product exercises help you identify where you need to do further experimentation.

They are not designed to be the one-time authoritative, "OK, we did a survey. We're done. We know what customers want." That's not the idea. The idea is a dynamic, ever-changing, ever-iterating process of gaining customer insight.

Andrew: Let's suppose, instead of a survey, you put up an order form and no one bought. How could you tell if it's because they don't like your ideas or because they can get them for free online?

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Eric: You've got to not be afraid of the false negative.

I had this problem. When I first started getting customer feedback, my initial reaction was just to do whatever customers said. I would panic at the first sign that customers didn't like what I was doing. I put my toe in the water, I get burned, and I would run the other way. And that's actually part of the same mental complex that gets people to not want to get feedback in the first place, because it is so scary. So, the first thing to do is take your fear level down.

Say that it is OK to get negative feedback. It's OK to have customers say, "You are so crazy doing this."

I didn't mean to offend." You've got to be willing to apologize. But then you've got to say, "All right. Well, then let's iterate."

So, once you accept the false negatives, that doesn't mean it's a bad idea. It might just mean that you messaged it wrong or that you messaged it to the wrong customers. Or maybe just nobody can come to Seattle. That's why you do things like surveys to get a feeling. I've noticed that the number of the people on the survey who said they would be willing to pay \$2,000 to come to the workshop was different from the number of people who would be willing to pay that to come to the workshop. It's much higher.

People don't always know what it is that they

I've noticed that the number of the people on the survey who said they would be willing to pay \$2,000 to come to the workshop was different from the number of people who would be willing to pay that to come to the workshop. It's much higher.



I was expecting people would comment on my blog post, "Who the hell do you think you are? You don't get to do this kind of thing. You're not important enough to have people come to a workshop."

I was fully ready for that, and I had the apology practically written, what I was going to post as a follow-up to say, "I'm so sorry. I've overstepped.

want. But once you know what questions to ask, then you can call them up. And you say, "Hi. You engaged with this thing. You are obviously interested. What do you think the problem is?" Get some feedback from a bunch of people and then run another experiment. So, I'm always convinced, when it is something that I'm doing wrong. I'm always saying, "Well, it's the messaging, not the product." It's never the product. It's always, "Well, we didn't say the right words in the special form."



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So, do it again. Do another version with better messaging. And after three, four, five, six experiments with the messaging, you are still not getting any sign-ups? That's analogous to me, with my instant messaging add-on and the sixth, seventh customer who was said, "No way. It's a deal breaker." Reality will start to eventually permeate your brain and say, "Wait a minute. Something just is not right. Fundamentally, this isn't the right product. Let's try a different variation."

Andrew: I see.

Eric: The great thing about minimum viable product is, you get to do all that experimentation before you've built anything. I often recommend it to startups. Just do an AdWords campaign and a landing page for the product you hope to be able to build. In fact, a lot of times, don't even say what the product is. Just offer people the benefits that you think they would really want and offer them by magic. Because if you can't sell magic, you certainly won't be able to sell technology that doesn't work quite as well. Just get out there and find out. Is there anybody on Earth who is interested in the benefit that I am trying to create?

Andrew: Metrics pointed television producers in the direction of trash TV that appeals to the widest possible audience. Is that what we're advocating here? To dumb down ideas to a point where they could get as big an audience as possible instead of trying to have a positive impact on the world?

Eric: No. I think that's a terrible mistake. Big companies can afford to do that. But startups generally blow up if that is what they do. I use the

word "synthesis" to say we are trying to match our vision with reality and find the synthesis between what we want and what's possible. That makes sense. You are going back and forth between what you want to do and then the data about what's possible.

And there may not be a fit. I counsel people sometimes to fail fast. What that means is, if you conclusively determine that your idea basically has no possibility of working, it's just a bad idea, just shut it down and start something else. Try to keep a light attachment to the specifics of your idea, because usually what happens is even if your idea is really bad, as most initial ideas are, there is usually a kernel of truth inside.

Another way to look at it is these sources of data of what customers want; our goal here is to chip away the crust from that kernel of truth to find out that the powerful aspect of the product is it helps people connect with their friends better.

Andrew: Do these methods only work for tech startups?

Eric: I don't want to claim that it can be used for anything, because that is one of those statements that gets you in trouble. But, I have seen, certainly in my work with companies and the speeches that I've been giving recently, people have been coming up to me to tell me stories of these principles in wide application in domains I never would have considered.

In packaged goods, in clean tech and in all kinds of places—it comes into play any place where there

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is, what we call “market risk.” That is, where you are doing something and the success of it hinges on customer adoption of some kind. We want customers to change their behavior in some way.

That could be true because we want people to use our social service agency in the non-profit world, to access certain services. Well, my question would be, how do you know that they have any interest in accessing those services? And if they do have interest, how are you going to get them information and get them in the door?

It could be true in government situations where a lot of innovative government programs are about trying to figure out how we can get this desirable result from our population. And of course it is true in any business situation where we want customers, ultimately, to make a purchase.

A lot of ideas that I use for the lean startup come out of lean manufacturing, which was pioneered by Toyota in the '50s to build cars. I feel like, if it can be used to build cars, what is your excuse, that your product is harder? No way. Very few products in this world are harder than the automobile to produce.

Andrew: Why are you teaching these ideas? Are you trying to make money selling this information? You've given it away. It's too late.

Eric: Yes. I have not pursued a profit maximizing strategy in the short term. I've been evangelizing a number of these ideas for years. First thinking of it as kind of a technology problem. And my background is in product development, so I used

to think these were technical problems. But behind every technical problem are always human problems, and then, thinking of it as an agile software development or kind of an open source phenomenon.

Those were the trends that mattered, and those trends are really important. But I've come to realize that there is a higher level of understanding that I think we need as an industry—and if you look at the beliefs that we have as an industry, how we are making the world a better place, about how we are really humble in the face of failure, how we learn from our mistakes, and how we, most importantly, tap into the creativity of the world's smartest people to use that energy for good. But then you look at what our behavior is. I don't think our actions live up to those ideals. I really don't. And for whatever reason, the last six months, 12 months, I assume because of the financial crisis, because of the negative returns that people are starting to see in certain VC contexts, because of the intellectual bankruptcy of the old model, people are listening to these ideas in a new way.

They are open to the possibility that maybe there is a better way that we should organize ourselves as an industry. So, my passion is to figure out is this the moment when we could change what is considered best practices? We could change the status quo, build an ecosystem that is actually supportive to these ideas for when the next boom comes back, which I think is going to be soon for the tech business, especially. Could we actually build the next wave of companies in a capital-efficient, lean, iterative and customer-centric manner?



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Andrew: Do you have an altruistic goal?

Eric: I'd be the last person to claim this is altruism of any kind. I think I stand to benefit from this change as much as everybody else in the industry. And I thought a lot about just creating a new company and applying these principles myself. But, frankly, I think it's too small. I don't think that that's going to have the kind of impact that I am hoping really evangelizing these ideas will have.

I am painting a vision of what I think the future is going to look like. I don't think I can cause that vision to come into being by myself. I don't think all the good ideas have been thought already. I don't think we've worked out all the implications of these principles that we need to. I'd be the beneficiary as much as anybody else of a world in which other great thinkers and other mediocre thinkers, too, maybe people at my level, and hopefully people a lot smarter, will come together and say, "There is a better way."

And we will all benefit if we can transform the industry from what I think has been a value-destroying paradigm into a value-creating paradigm. Certainly, in the software business, if you think about how many products are left on this Earth in the industrialized world, I'll say, that are sold that do not involve software either in the product itself, in its creation, in its assembly, in its design. And yet our ability to produce reliable, high-quality software as an industry is abysmal. Our track record is just not very good. Part of me feels like, how are we going to survive as a civilization if we don't learn to master these

concepts in an in-depth way? Certainly we are going to squander a lot of precious, precious resources. And the most precious resources are people's time, energy and passion.

But, more than that, I'm not sure we are going to have such a good outcome in terms of the world that we are going to live in in the future. I don't mean to get too grandiose here at the end. But those are my aspirations.

Andrew: Is there anything that you think people who are reading this need to know that I didn't get to ask?

Eric: Well, there's a ton of detail. We could talk for an hour just on one of the lean startup principles or one of the practices, like continuous deployment. That could take hours just to get into the details of how that would work. I think the question I would ask everybody to think about, and I don't think this is unique to me, is: What could we be doing differently right now as an industry that would unlock more of our human potential? I think anyone who reads this on any given day could walk back to their office and immediately make one small change that could start to catalyze that new way of working.

So, I'd be very interested to hear people's thoughts about that if people want to come to the blog or get in touch. Hear their stories of their attempts to do it. I think what matters is not so much the talking about it, but the doing it.

So, how could we get started? ■

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