

Build, Measure, Learn: Taking Lean Start-up Methods Serious and integrating them in day-to-day decision making

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Speed MI Up è un'iniziativa che rientra nell'Accordo per il sostegno a Occupazione e Imprenditorialità sottoscritto da Camera di Commercio di Milano e Comune di Milano.

Il consorzio Speed MI Up, costituito da Università Bocconi e Camera di Commercio di Milano, si occupa della sua realizzazione.



Agenda (Mixed Bag)



- 1. Lean Start-up revisited... operational and mindset implications**
- 2. Something more on numbers and number sources: sales forecasting (for business planning): methods and sources**



Mikkel Draebye, Danish

Mikkel holds a BA and MSc from the University of Aarhus (DK), and MBA from SDA Bocconi (IT) and a PhD from Carlo Cattaneo LIUC University (IT). Mikkel has received formal training in the area of teaching, strategy and entrepreneurship from Harvard Business School (US), IMD (CH), Babson College (US) and Syracuse University (US)

Mikkel teaches an average of 60 course days per year in around 20 different executive and master courses, mainly in the area of entrepreneurship & Innovation, strategy and business planning. Mikkel is currently doing research into the area of Corporate Entrepreneurship & Innovation, but comments and blog on other academic themes as well such as Start-Up Entrepreneurship, Entrepreneurial Finance, Strategic Management, Sports Management, Corporate Social Responsibility, Non-Market Strategies and Business Ethics.

Mikkel's institutional responsibilities in Bocconi include coordinating and tutoring the MBA Entrepreneurial Projects and selecting, advising and tutoring Start-Ups in Bocconi's SpeedMiUp incubator. Since 1999 Mikkel has advised and tutored more than 200 start-ups.

Mikkel is frequently involved as a visiting professor, expert and guest-speaker in courses, seminars and events involving Innovation, Entrepreneurship, Sports Management, Business and Strategic Planning. Institutions inviting Mikkel includes: Barilla (IT), Edison (IT), Enel Green Power (IT), Whirlpool Europe (IT), Gruppo Unicredito (IT), Confindustria (IT), UEFA (CH), CIES (CH), Rotterdam School of Management (NL), Nyenrode University (NL), Chulalongkorn University (TH), Fudan Shanghai University (CHN), and Nordakademie (DE)

You !





Start-ups in an academic context

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MANAGING UNCERTAINTY





speed  up

o stile del titolo

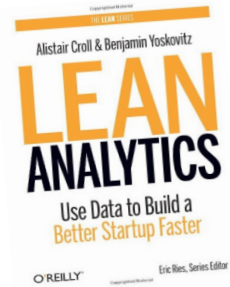
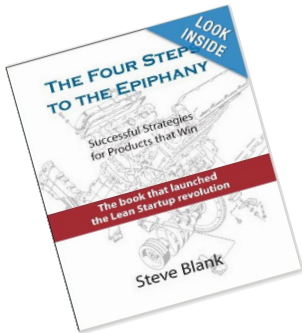
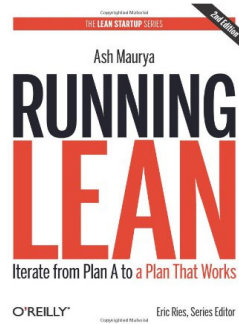
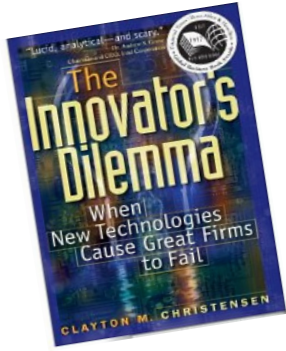


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LEARNING FAST

The Minimal Viable Product / Lean Start Up Learning and Validation Method

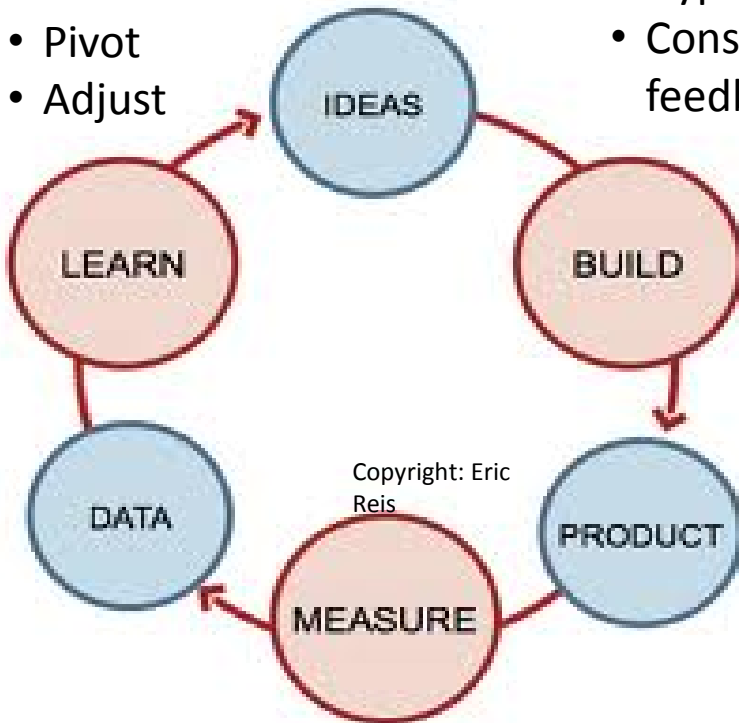


Lean Principles: Build – Measure - Learn



- Persevere
- Pivot
- Adjust

- Hypothesis
- Consistent “themes” in market feedback



- Landing page
- Mockups
- Prototype
- Release 1.0

- Cohort Analysis of KPIs
 - Conversion
 - Retention
 - Sales
 - Referrals
 -

Test of the underlying hypotheses for the business



- 1. Value Hypothesis: Is someone willing to pay**
- 2. Growth Hypothesis: Can I grow the business at a profit**
- 3. Other Hypotheses: Cost, Quality, Delivery.....**

Models of Growth (Growth Hypotheses)



Paid Engine of Growth

CPA
CPO
Average Basket
Basket Margin

Sticky Engine of Growth

Retention rates
Repeat Buys
Lifetime Value

Viral Engine Of Growth

Viral Coefficients:
How many new
users will “sign up”
as a result of adding
one new customer

Different type of MVPs



- Video MVP : Demonstrating functions and preselling/pre-ordering (Dropbox, Pebble...). This MVP approach has become easier with Kickstarter/IndieGoGo etc
- Concierge MVP: Manually performing some of the tasks that your fully developed website would eventually perform automatically through backend algorithms (Aardvark, Cercaofficina)
- Email
- Wireframe (“empty” website)
- Working Prototype

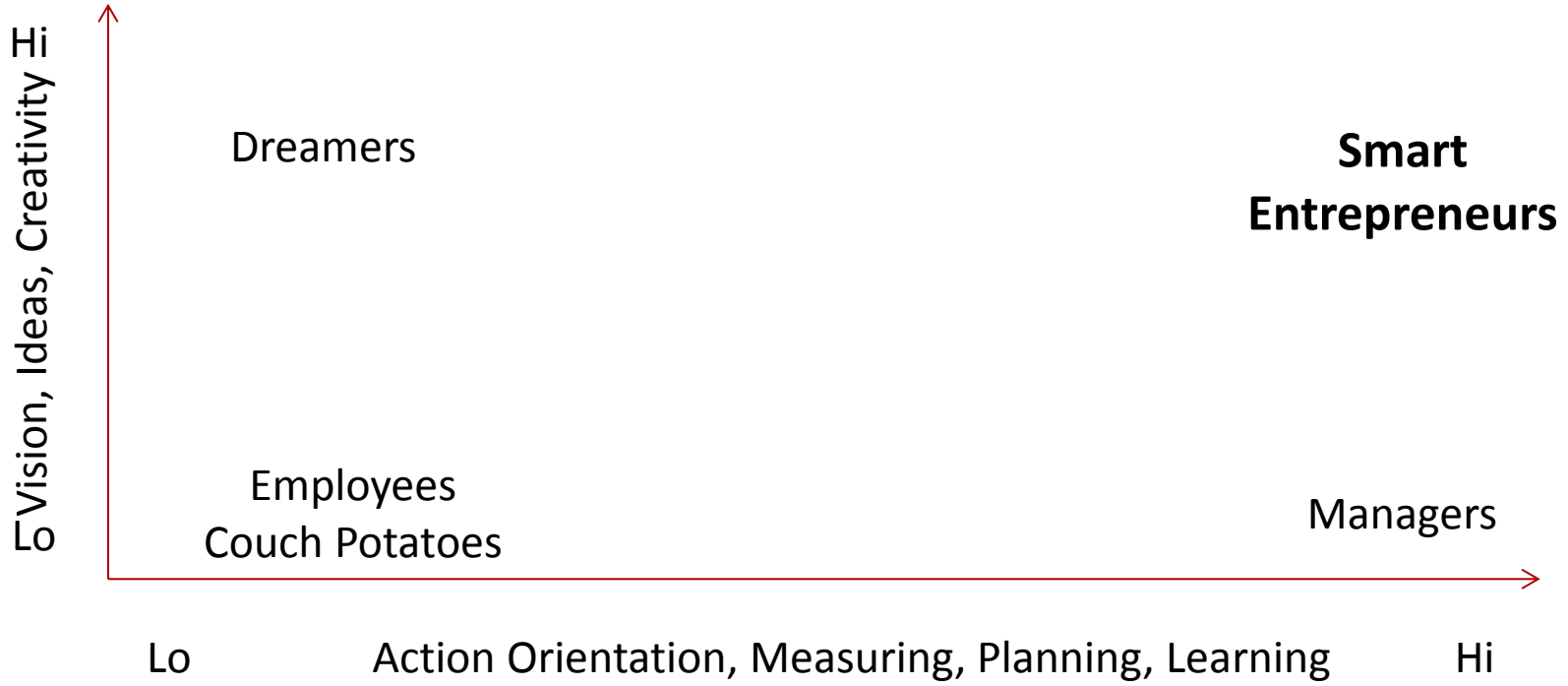
MVP adopters are early adopters. They help you to understand the value hypotheses. More difficult to test growth hypotheses with MVP

Other type of Experiments



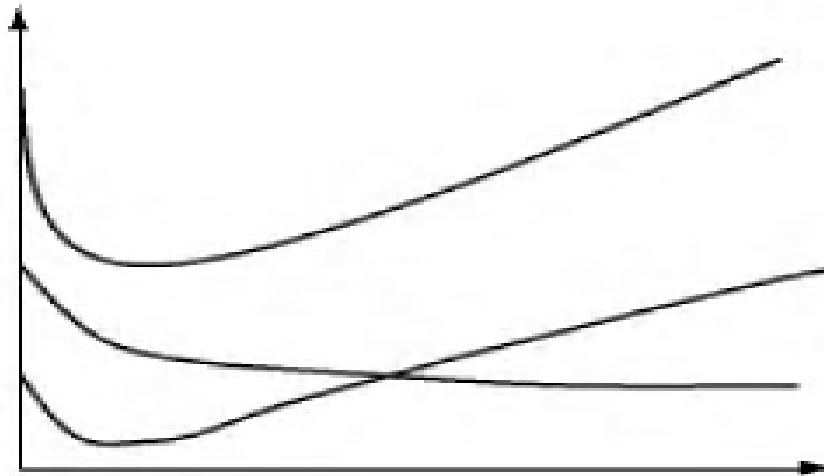
- Split Tests (A/B Testing)
- Period Tests (Feature Testing)

“Mindset Implications” -1



“Mindset Implications” -2

Total Risk



$TR = f(SBR, MBR)$

Missing the boat risk curve

Sinking the boat risk curve

Planning Time

Principles of Effectuation (Sarasvathy)



● Bird-in-hand principle:

Start with Who you are, What you know, & Whom you know

(Not with pre-set goals)

● Affordable loss principle:

Invest what you can afford to lose – extreme case \$0

(Not expected return)

● Crazy Quilt principle:

Build a network of self-selected stakeholders

(Not competitive analysis)

● Lemonade principle:

Embrace and Leverage surprises

(Not avoid them)

● Pilot-in-the-plane principle:

The future comes from what people do

(Not inevitable trends)

Effectual Principles

Means
BIRD-IN-HAND



Affordable Loss

FOCUS ON
DOWNSIDE



**Co-Creation
Partnership**

CRAZY QUILT



**Leverage
Contingencies**
LEMONADE



Worldview:

CONTROL VS. PREDICTION



1. Market Hypotheses



1. Define the target Market

Market for watches in EMEA

Market for Car Repair Services in Italy

Market for security check trays in Italy

Market for Dressing Apps – world

Market for Authentication Solutions – Italy

What if market is new ? : Size the potential users

Example

Market potential: top down approach.

	2012	2013	2014	2015
Number of high-end medium bottle sold (thousand)	636	717	809	913
Potential number of FAM sold (thousand)	636	717	809	913
Potential number of analysis performed (thousand)	64	72	81	91
Price per FAM	20	25	30	30
Price per Analysis	90	90	90	90
Potential FAM revenues	12,720,000	17,925,000	24,270,000	27,390,000
Potential Analysis revenues	5,717,640	6,445,830	7,272,910	8,207,870
Total potential revenues	18,437,640	24,370,830	31,542,910	35,597,870
<i>From public/private research centers</i>	<i>5,531,292</i>	<i>7,311,249</i>	<i>9,462,873</i>	<i>10,679,361</i>
<i>From private companies, CMO & CRO</i>	<i>12,906,348</i>	<i>17,059,581</i>	<i>22,080,037</i>	<i>24,918,509</i>

1. Overall Market Size & Growth



Data and Information Sources

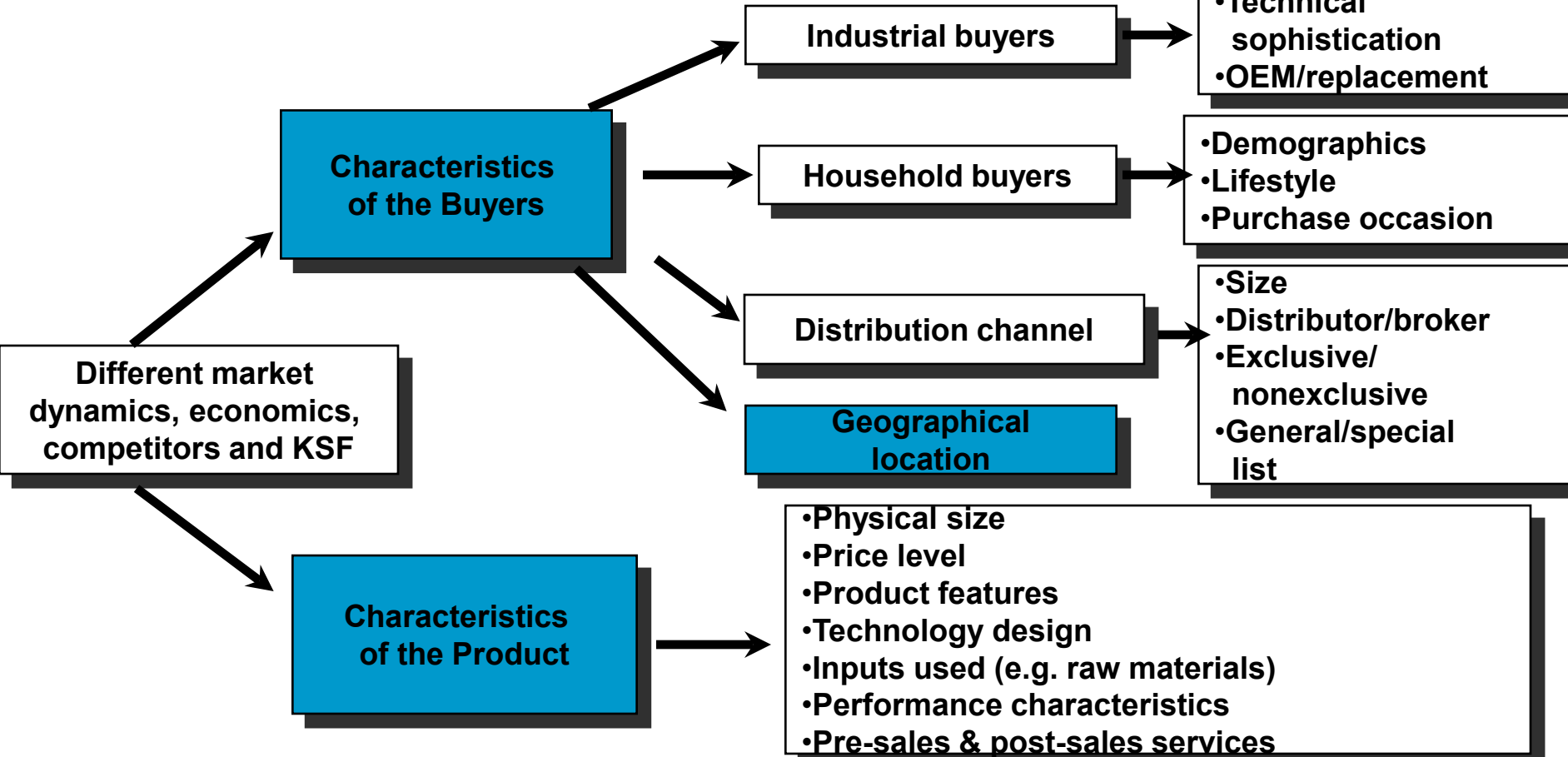
lib.unibocconi.it – databases

Aida

Amadeus

Business Source Complete

2. Target Segments



Characteristics of the Buyers

Industrial buyers

- Size
- Technical sophistication
- OEM/replacement

Household buyers

- Demographics
- Lifestyle
- Purchase occasion

Distribution channel

- Size
- Distributor/broker
- Exclusive/nonexclusive
- General/special list

Geographical location

Different market dynamics, economics, competitors and KSF

Characteristics of the Product

- Physical size
- Price level
- Product features
- Technology design
- Inputs used (e.g. raw materials)
- Performance characteristics
- Pre-sales & post-sales services

3. Competitor Analysis

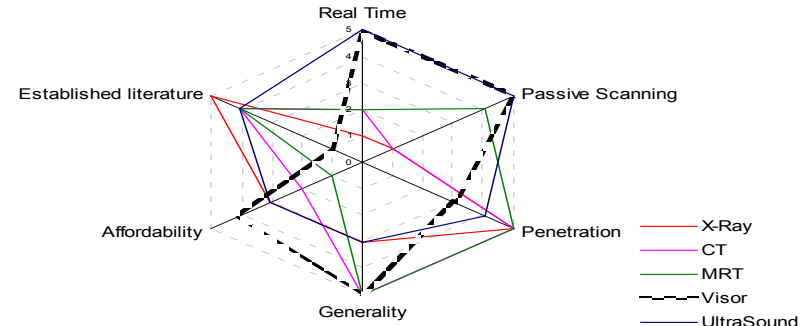
Describe and list competitors in your segment

If many, group them

If few, include “substitute” competition

Direct Competitor Analysis

Boat	Characteristics	Passenger Capacity per Boat	Average Price	Average Monthly Passengers
Rissalena	37 ft motor catamaran	24	35	1,700
Pez Gato	Two 40 ft sailing cat	35	40	2,500
Pirate ship	110 ft ship	150	49	4,000
Princesa	Three 43 ft sailing cat	42	50	3,000
Guapa	42 ft motor cat	40	70	1,500
Manta	46 sailing cat	50	60	2,000



Bars/Restaurants:

Koko Bar:

Weaknesses: Limited number of TV's, Australian themed, limited food menu, uncomfortable seating arrangements, poor service, poor management, location

Strengths: Large Ex-Pat crowd, pool tables, international matches broadcasts throughout the week

English Football Pub: **Weaknesses:** Limited number of TV's, limited food menu, small space, essentially an Irish pub, poor service, poor management

Strengths: Location (5 minute walk from Duomo), Ex-Pat crowd

Bar Magenta:

Weaknesses: Poor layout, limited number of TV's, poor service, sporting events not main attraction

Strengths: Location, aperitivo during broadcast matches, attracts crowds on non-sporting event nights

Louisiana:

Weaknesses: Limited number of TV's (one projection screen), not sports focused, American bistro themed

Strengths: Strong Management, Location (Brera), large Ex-Pat crowd, attracts crowds for themed nights (discos, etc), well-marketed, excellent website

4. Operational Marketing Plan



Planned selling activities

Direct

Agencies/Agents

Planned advertising activities

E-marketing (seo, ad words, facebook promote)

Social / Community

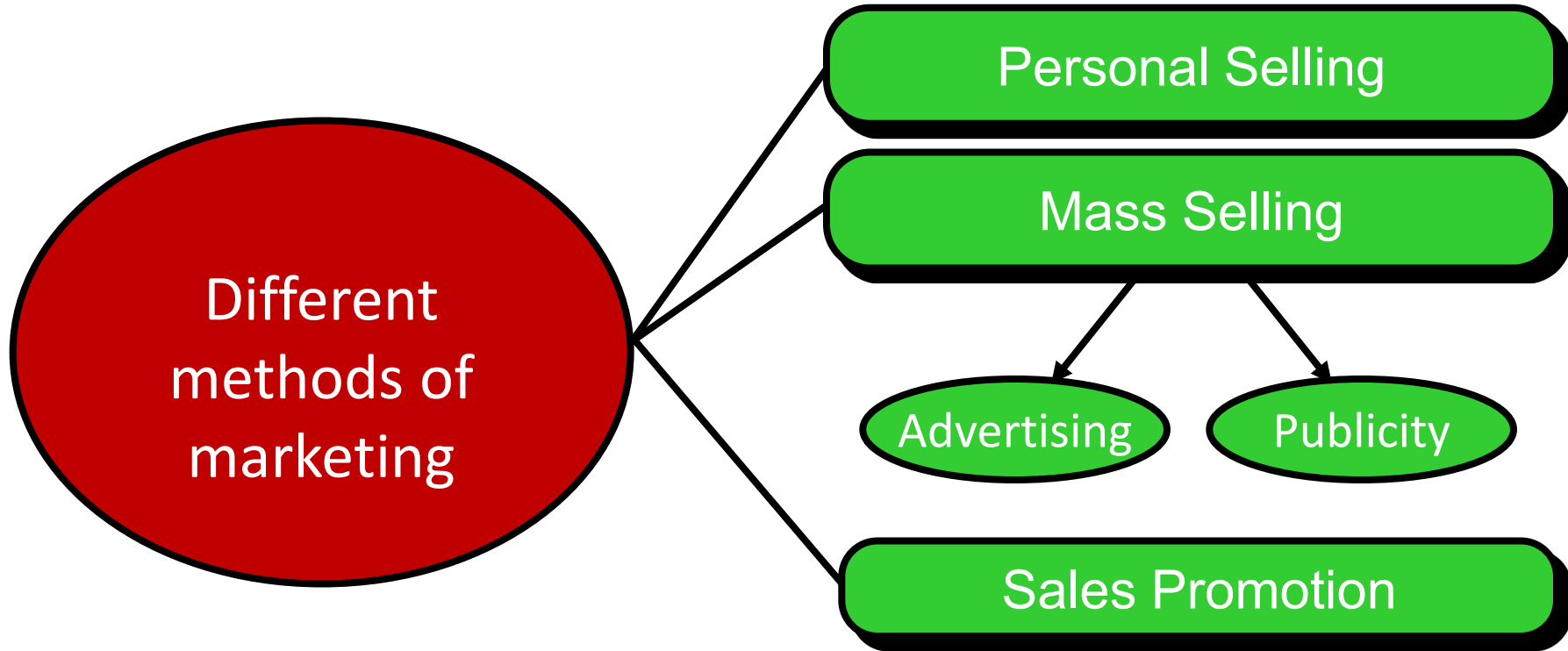
Radio, Outdoor, Print

Fliers, Posters

Events, Trade Fairs

Marketing budget

Several Marketing Methods Are Available




4.3.1. Advertising

Advertising will be mainly online through the realization of online banners to be published on newspapers like Corriere della Sera and Il Sole 24 Ore and on specialized websites.



The expected investment reflect a required average of 5 clicks per day (cost per click around 5 euro) and will be around 9.000 euro (5 clicks for 360 days a year).

Additionally, for the first year promotion will run also through posters and billboards located in key areas of Milan (business areas) with the aim of raising curiosity and awareness around the  brand.



The expected investment is 22.500 euro (for a total of 90 days of exposure).¹³

4.3.2. Conferences and fairs

Marketing Budget

Direct Customer Contact	2014	2015	2016	2017	2018	2019
Wine Tastings	10,000	20,000	80,000	150,000	400,000	400,000
Mobile Wine Tastings	-	40,000	150,000	300,000	600,000	400,000
Annual Wine Fair	-	55,000	100,000	300,000	300,000	300,000
Total Direct Customer Contact Expenses (US\$)	10,000	115,000	330,000	750,000	1,300,000	1,100,000
Advertising	2014	2015	2016	2017	2018	2019
Print	-	-	145,000	300,000	400,000	100,000
Street	-	-	200,000	400,000	400,000	-
Transportation	-	-	300,000	600,000	600,000	100,000
Company Offices	10,000	20,000	100,000	200,000	300,000	200,000
Community Partners	20,000	30,000	300,000	500,000	600,000	300,000
Total Advertising Expenses (US\$)	30,000	50,000	1,045,000	2,000,000	2,300,000	700,000
Communications	2014	2015	2016	2017	2018	2019
Editorial	-	-	-	-	-	-
PR events	3,000	5,000	15,000	30,000	60,000	60,000
Total Communications Expenses (US\$)	3,000	5,000	15,000	30,000	60,000	60,000
Online	2014	2015	2016	2017	2018	2019
Google Adwords	5,000	10,000	30,000	50,000	100,000	60,000
Facebook Advertising	10,000	15,000	60,000	100,000	150,000	60,000
Other	2,000	5,000	20,000	70,000	90,000	20,000
Total Online Expenses (US\$)	17,000	30,000	110,000	220,000	340,000	140,000
Total Marketing Expenses (US\$)	60,000	200,000	1,500,000	3,000,000	4,000,000	2,000,000

2014 – Enter UK market

	YY0-MM12	YY1-MM01	YY1-MM02	YY1-MM03	YY1-MM04	YY1-MM05	YY1-MM06
SEM		€ 50,260.00	€ 50,260.00	€ 50,260.00	€ 50,260.00	€ 50,260.00	€ 50,260.00
SEO		€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00
Social Media, PR & Guerrilla	€ 133,280.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00
Affiliate Marketing							
CRM					€ 660.00	€ 660.00	€ 660.00
Banners							
Offline (newspaper; billboards, freepress)	€ 100,000.00	€ 8,000.00	€ 8,000.00	€ 8,000.00	€ 8,000.00	€ 8,000.00	€ 8,000.00
		YY1-MM07	YY1-MM08	YY1-MM09	YY1-MM10	YY1-MM11	YY1-MM12
SEM		€ 50,260.00	€ 50,260.00	€ 50,260.00	€ 50,260.00	€ 50,260.00	€ 50,260.00
SEO		€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00
Social Media, PR & Guerrilla		€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00	€ 1,000.00
Affiliate Marketing					€ 5,000.00	€ 6,000.00	€ 9,000.00
CRM		€ 660.00	€ 660.00	€ 660.00	€ 660.00	€ 660.00	€ 720.00
Banners		€ 30,000.00	€ 30,000.00	€ 30,000.00	€ 30,000.00	€ 30,000.00	€ 30,000.00
Offline (newspaper; billboards, freepress)		€ 8,000.00	€ 8,000.00	€ 8,000.00	€ 8,000.00	€ 10,000.00	€ 10,000.00

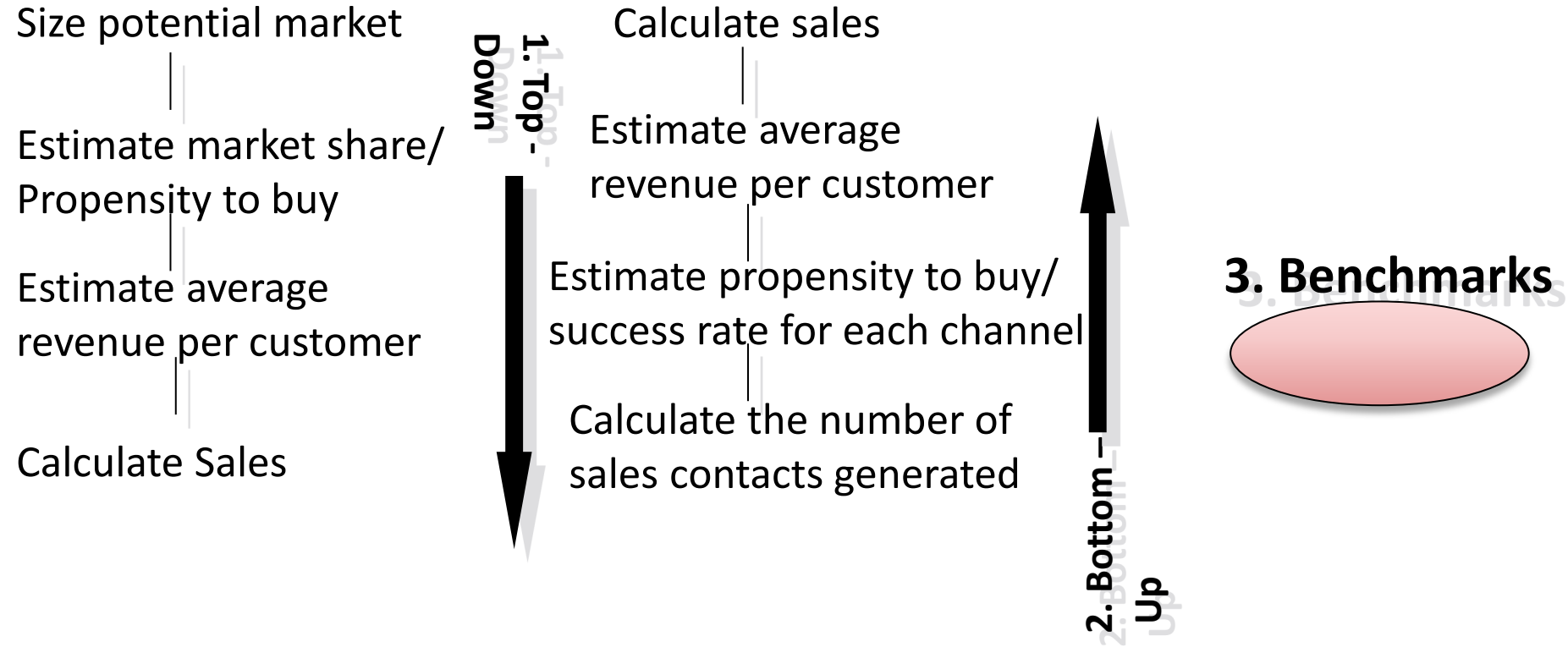
5. Sales Forecasting



A salesforecast almost always implies assumptions. The trick is to make these assumptions acceptable

- Transparent
- Secure base
- “Linear” logic

There are three Basic approaches to sales forecasting



Information and assumption sources

To (gu)estimate the propensity to buy your product, the following “techniques” can be applied

- **Experience within the organization**
 - History of product in different, but similar, markets
- **Benchmarks**
 - History of similar launches in other organizations
 - Industry “standards” (occupation rate of 3-star hotels in Moscow)
- **Pilot tests (small scale launch)**
- **Market surveys**
- **Interview with potential clients (focus groups)**
- **Last resort: Arbitrary market share / market penetration rates**

To the extent possible start from a secure base !!!!

Model Example Top-Down



Chilean Wine Sales and Dondevan Share

	Year 2003	Year 2004	Year 2005	Year 2006
Total Chilean Wine in Italy (€)	1,982,952	2,181,247	2,399,372	2,639,309
Estimated Anual Growth	10%	10%	10%	10%
Italian Market (€)	2,200,000,000	2,233,000,000	2,266,495,000	2,300,492,425
Anual Growth	1.5%	1.5%	1.5%	1.5%
Chilean wine share	0.0901%	0.0977%	0.1059%	0.1147%
Dondevan Sales		293,745	587,490	881,235
Share over Chilean wine in Italy		13.5%	24.5%	33.4%
Dondevan Share Total Market		0.0132%	0.0259%	0.0383%

Dondevan Volume Estimation

Annual Sales	Quantities			
	Year 2003	Year 2004	Year 2005	Year 2006
Escenario 1				
Bottles	2,719	50,400	100,800	151,200
Cases	226.6	4,200	8,400	12,600
Containers	0.3	5.00	10.00	15.00

Model example Bottom Up



25.000 emails

	Cart Email A Day 1	Cart Email B Day 3	Cart Email C Day 5	AVERAGE
Open Rate	40%	39%	32%	37%
Click-to-Open	44%	47%	28%	41%
Click-thru-Rate	18%	18%	9%	15%
Conversion Rate	22%	15%	24%	20%
Sales/email	\$8.60	\$8.40	\$5.04	\$7.46

packing materials

Web Images Maps Shopping More Search tools

About 23,700,000 results (0.37 seconds)

Ads related to **packing materials**

ULINE - Packing Supplies - Huge Catalog - ULINE.com

www.uline.com/Packing-Supplies

Over 25,000 Products. Same Day Shipping From 7 Locations.

Custom Products Cardboard Boxes
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A large, red, 3D-style arrow pointing to the left. Inside the arrow, the text 'CLICK ME!!!' is written in a bold, yellow, sans-serif font.

Home Depot Packing Materials - homedepot.com

www.homedepot.com/

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Position 1: 6%+

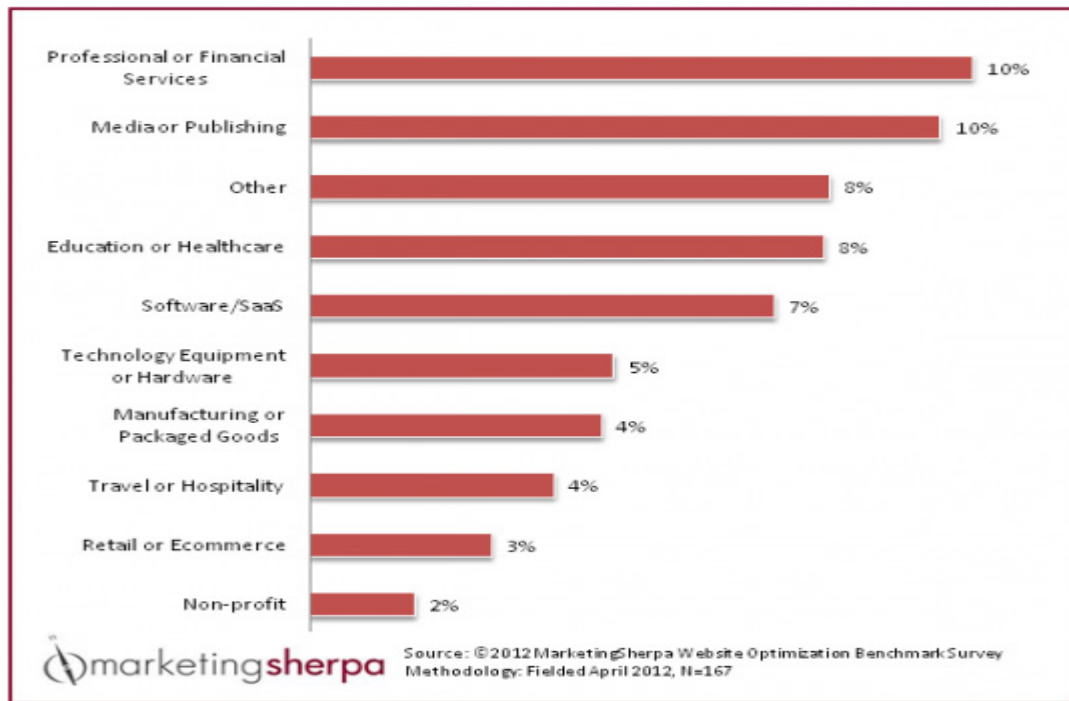
Position 2: 4-5%

Position 3: 2-3%

Position 4: 1-2%

Position 5 and lower: 1%

Conversion Rates



Conversion rate (visit to add to basket): 8%

Conversion rate (visit to sale): 4%

2013 update x device



Conversion Rates by Device		Q1 2012	Q2 2012	Q3 2012	Q4 2012	Q1 2013
OVERALL	Traditional	2.25%	2.34%	2.72%	3.13%	2.51%
	Tablet	1.87%	1.82%	2.35%	2.86%	2.60%
	Smartphone	0.49%	0.53%	0.77%	0.83%	0.79%
TABLET	iPad	1.94%	1.90%	2.41%	2.96%	2.68%
	Kindle Fire	1.03%	0.92%	1.43%	1.70%	1.50%
	Android	1.14%	1.15%	2.15%	2.22%	2.04%
SMARTPHONE	iPhone	0.51%	0.55%	0.77%	0.84%	0.76%
	Android	0.49%	0.50%	0.78%	0.82%	0.83%
	Windows	0.51%	0.47%	0.75%	0.74%	0.82%
	Other	0.04%	0.02%	0.23%	0.40%	0.48%