An Executive’s Guide to Leverage Lean Startup for Digital Product Management Success

Published 8 June 2021 - ID G00721561 - 8 min read

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Initiatives: Executive Leadership: Innovation Management; CIO Leadership of Innovation, Disruptive Trends and Emerging Practices

Digital business requires digital product management. Executive leaders responsible for innovation can use the lean startup approach to increase digital product success and adoption.

Overview

Key Findings

- The traditional “plan-build-run” approach does not work in managing digital products in an increasingly volatile, uncertain, complex and ambiguous environment.

- Executive leaders in established enterprises are not familiar with the lean startup (LSU) approach, because it is an approach developed for startup companies initially. Thus, they don’t know whether they should and how they can apply LSU in their digital product development and other innovation initiatives.

- Applying the approach in established enterprises will face culture, performance and organization barriers.

Recommendations

Executive leaders who manage innovation should:

- Explore adoption of the LSU approach in product and innovation management, by getting acquainted with the basic process cycle and principles of LSU.

- Foster LSU by focusing innovation efforts on a small business area that holds old problems to fix. Then, create a cross-function promotional team to share learnings and scale the approach.

- Make the LSU approach workable in their enterprises by addressing culture, performance and organization barriers.

Introduction
Digital product management requires a new approach, different from any other traditional project management approach. Organizations operate in an increasingly volatile, uncertain, complex and ambiguous business environment. In times of uncertainty, they need to experiment with new ways of doing business. This makes the traditional plan-build-run approach not applicable.

LSU is the alternative approach adopted by leading organizations in managing digital products. Instead of planning the future, they hypothesize future scenarios and verify hypotheses continuously. Instead of building once and then running the system, they iterate the system constantly.

LSU was developed by Eric Ries, based on his experience as an entrepreneur with several startups. Organizations begin with a set of hypotheses of what is possible and experiment with their customers to develop an offering and a repeatable business model. These experiments are iterative, developing insights and refining the offering through a minimum viable product that is released to create business value by solving customers’ problems based on their feedback and further evolution. While the approach originated with new business models enabled by innovative technologies — where little is known about what will be successful in the market — many organizations find LSU useful for exploring the multiple risk factors associated with new ideas.

This research provides basic concepts of LSU to help executive leaders understand how to leverage this approach using new digital product management.

Analysis

Explore LSU in Product and Innovation Management

Mature organizations pursuing digital business opportunities need to develop and experiment with new business models, digital products and markets. In doing so, they face similar challenges to those of startup companies. In this increasingly uncertain world, it becomes very difficult to anticipate future conditions or trends. The LSU approach does not predict the future — instead, it explores the future and reveals it gradually. It sets hypotheses and then proves, disproves or evolves them. That’s why LSU should be applied.

Gartner believes that mature organizations should mediate the LSU approach from startup companies, and adopt it to succeed with new digital product initiatives.

Apply the Process Cycle of Lean Startup

Based on existing literature, LSU has three key phases:

1. Learn — Where we build an understanding of the customer and the potential business model

2. Build — Where we build out a prototype through successive iterations

3. Measure — Where we assess the results (see Figure 1)
As shown in Figure 1, the process of LSU is not a line, but requires multiple cycles. After finishing the measure phase, it can go into a new cycle, starting from the learn phase. The three key phases can be further divided into seven steps:

1. **Shape your hypothesis.** Begin the cycle by having an idea for an offering that customers will value. This can come from an innovative idea, or by focusing on an area of the organization or business capability where innovation is needed. The hypothesis details the idea and its potential.

2. **Know your customer.** Identify the potential customers or internal stakeholders who would be interested in the offering, and refine and build out the hypothesis.

3. **Test your business model.** Use a business model canvas to articulate the offering and the business model needed to support it.

4. **Build a prototype.** Follow the LSU approach of a minimum viable product to develop the offering.

5. **Engage your customers.** Engage a target group of customers to test and evolve the offering.
6. **Measure the response.** Measure the results, customer adoption and what customers thought.

7. **Pivot.** Take what you’ve learned, refine your hypothesis and do another cycle.

**Foster LSU and Scale Adoption**

In an organization where there is no experience of LSU, Gartner recommends finding a small, low-risk business area to pilot the new LSU approach.

During the pilot of LSU, product management should keep in mind the following principles, among which the minimum viable product and pivot phase are the most important two principles:

- **Minimum viable product:** A minimum viable product is a product with just enough functions that can be used by early customers. This helps avoid burdening developers with potentially unnecessary workload. Developers iterate on a version of the product and respond to the feedback from the customers.

- **Pivot:** This is a structured way to refine the hypothesis; change the strategy, innovation and product; and iterate a new cycle. This means that you can never finish a product development process — you develop your product continuously.

There are some other principles that you should also consider:

- **Continuous deployment:** You not only develop your digital product continuously, but also deploy your digital product continuously. This means all code is deployed into production immediately after it is written.

- **Split test:** Split test is also called the A/B test. You offer different versions of your digital product to customers at the same time. In this way, you can observe the difference in behavior of different customer groups and measure the impact.

- **Actionable metrics:** While you do the test, you should define some metrics to measure the result so that you can make decisions on future change. These metrics are usually leading indicators. These are called “actionable,” because Eric Ries saw quite a lot of cases where people used “vanity” metrics, which are good for feeling awesome but are bad for action.²

- **Innovation accounting:** This framework of chained leading indicators helps you monitor processes, define milestones and prioritize your work (see Disrupting Traditional Approaches to Create a Resilient Innovation Funding Model).

After the pilot proves the concept of the LSU approach, it is recommended to create a cross-function promotion team to promote this approach and share learnings and progress.

**Address Culture, Performance and Organization Barriers When Implementing LSU**
Because LSU is originally for startup companies, executive leaders are not aware of the barriers that they will face while introducing it into established enterprises. Here are the major barriers that should be addressed.

**Culture**

Culture is a collection of behaviors that repeat in an organization. It is the biggest barrier to change and transformation. Commonly seen culture barriers include:

- “We like to develop a perfect plan before execution.” This will lead to development of a product with too many functions that may not be necessary.
- “We hate and want to avoid failure and risk.” Because of this, people are not willing to try new things.
- “Our management style is ‘manage and control.’” People just do what they are asked to do. They don’t pay attention to how they can do jobs better.
- “The boundaries between functions are defined very clearly.” People care only about their only responsibilities and don’t see mature benefits across the organization.

Culture is difficult to change, because it is belief and tradition. Gartner recommends combining top-down change initiatives (see Use the ESCAPE Model to Develop Change Leadership) with a culture hacking approach, which is a small, immediate and visible adjustment to the culture that garners big results. In The Art of Culture Hacking, we introduce several culture hacking cases that you can refer to.

**Performance**

In established enterprises, measuring the performance of individuals is equally as important as, if not more important than, measuring the performance of teams. However, LSU emphasizes the importance of measuring the digital product team, so that the team can work toward a common objective.

In established enterprises, performance is usually measured by results and lagging indicators. However, LSU is used to experiment with new business where results are not guaranteed. Thus, to measure behavior, enterprises should use leading indicators (see The Gartner Digital Business Value Model: A Framework for Measuring Business Performance).

To make LSU work, established enterprises should redesign their performance management system (see Designing and Implementing the I&T Operating Model: Components and Interdependencies).

**Organization**

Many established enterprises are organized based on the plan-build-run concept. There is a strategy function to create the plan, a development team to build the system, and an operations team to run the system. This structure, by nature, cannot work for LSU.

LSU requires a product-centric structure with the following characteristics:
- Cross-functional product delivery team
- Fusion of development and operations by DevOps practices
- Fusion of business and IT

Evidence

1. Books:

Website:

   The Lean Startup, The Movement That Is Transforming How New Products Are Built and Launched

2. Vanity Metrics vs. Actionable Metrics — Guest Post by Eric Ries, Tim Ferriss blog

Recommended by the Authors

Enterprise Architects Combine Design Thinking, Lean Startup and Agile to Drive Digital Innovation
Using an Idea Evaluation Canvas for Innovation Experimentation
How Executives Can Design an Innovation Process That Brings Ideas to Value
Executing on Innovation: Design the Process From Idea to Value
The CIO’s Essential Guide: Digital Product Management
Mastering the Role of Products in the Digital Era
Inspire Customer-Centric Experimentation to Kick-Start Application Innovation
Reimagine Innovation With an Adaptive Innovation Ecosystem Framework