How to Systematically Eliminate Risk

Last time I talked about prioritizing your business model risks. Today I'm going to discuss how you systematically eliminate these risks.

We know that risks are tackled through experiments. But because the terrain before Product/Market Fit is riddled with qualitative learning, while you may be able to mitigate some risks, you can never completely eliminate them through a single experiment.

There are two common fallouts of this. One is that startups get discouraged from their initial lukewarm or negative learning and either pivot prematurely or abandon further experiments. The other is the complete opposite. Here startups get overly optimistic from their initial positive learning only to get potentially stuck later.

I wrote about my experiences with the second in a rather controversially titled post:
"The Fallacy of Customer Development".

Controversy aside, the main point of the post was that you always need to keep the end goal in sight:

The first significant milestone of a startup is achieving product/market fit which isn't just about building the "right" product but building a scalable and repeatable business model that works.

You can't afford to blindly follow a process (even this one) or aimlessly run experiments just for the sake of learning. Instead you need to start with the end in mind and carefully align your experiments into "staged iterations" so your learning is additive.

The Iteration Meta-Pattern

I first introduced the iteration meta-pattern shown below in the “Running Lean” book:

> *While an experiment helps you validate or invalidate a specific business model hypothesis, an iteration strings multiple experiments together towards achieving a specific goal.*

Lets see how you can use staged iterations to systematically eliminate risks from your business model.

Applying the Iteration Meta-Pattern to Risks

The starting point is a completed Lean Canvas that lays out a plan that you think should work. You then methodically run staged experiments that visit every box on the canvas.

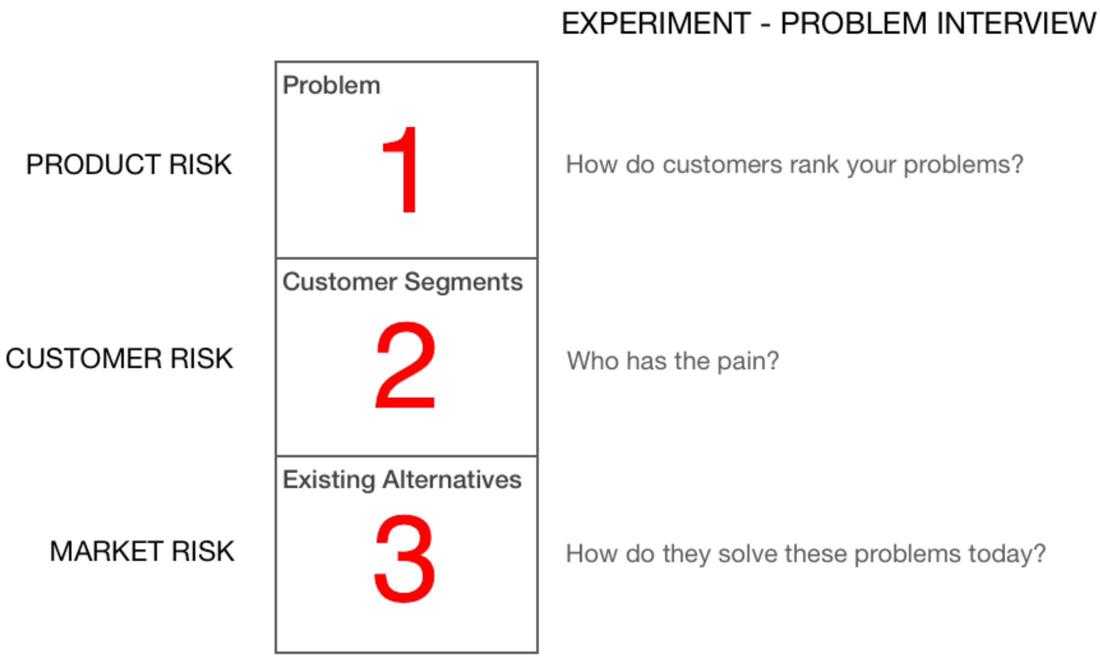
> *Your business model is not a dartboard.*

Last time, I shared my top 3 universal risks – Problem, Channels, and Revenue Streams. These can be further generalized into 3 main risk types – Product, Customer, and Market.

While the top 3 universal risks serve as a quick diagnostic for prioritizing your canvases, here is how I tackle them in stages:

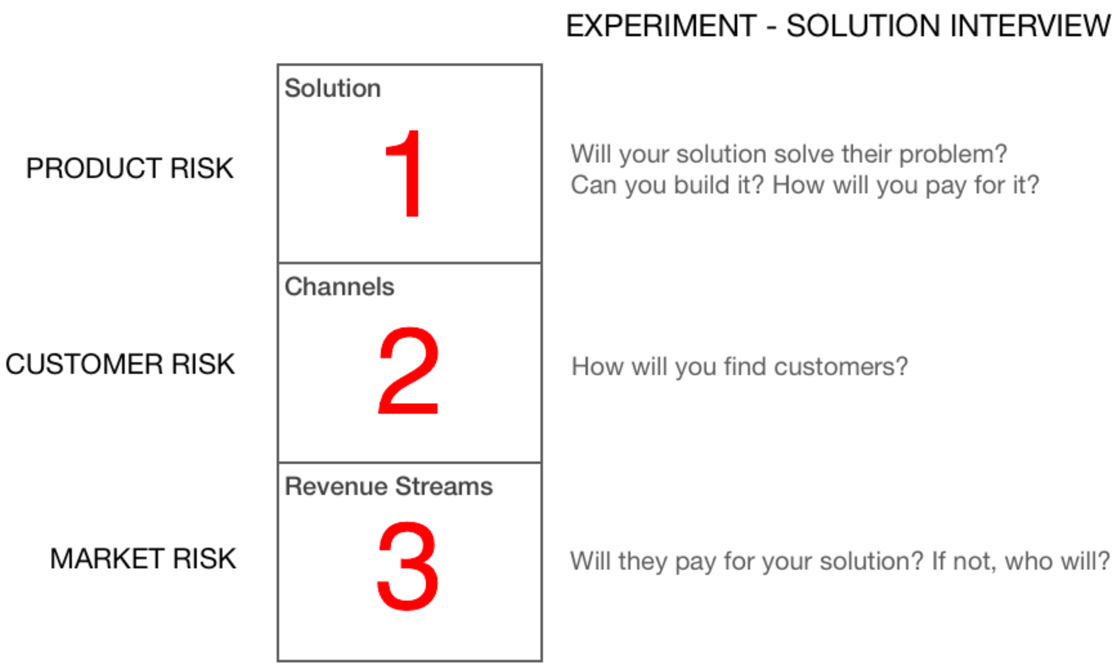
Stage 1: Understand Problem

Run interviews to understand if you have a problem worth solving – who has the problem, what is the top problem, how is it solved today?



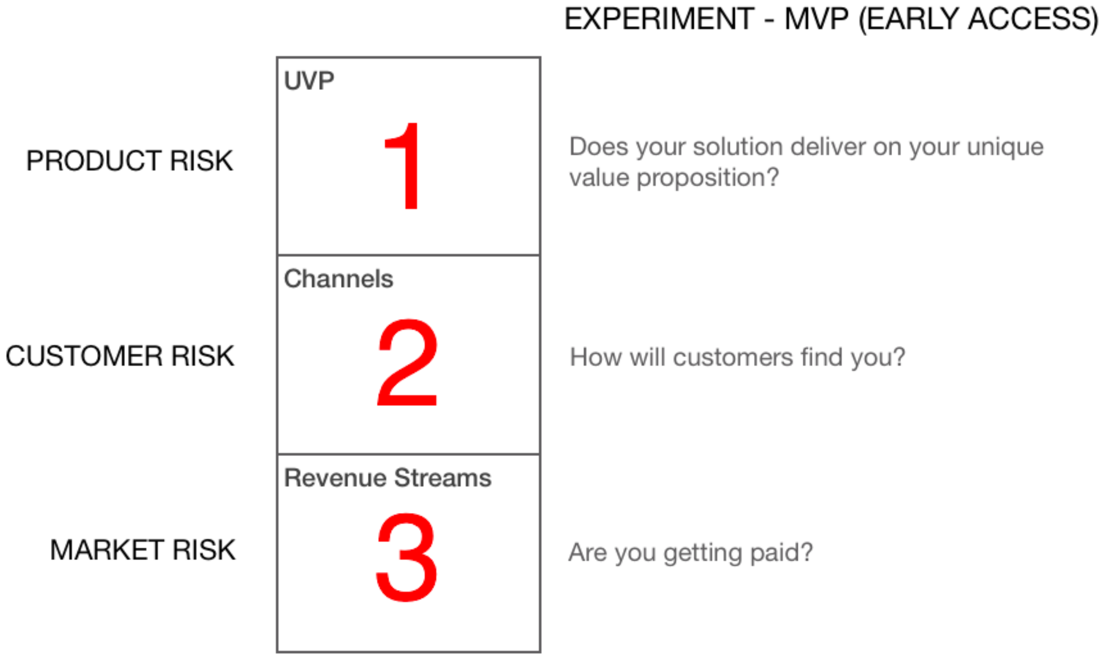
Stage 2: Define Solution

Armed with knowledge from stage 1, take a stab at defining the solution, build a demo that helps the customer visualize the solution, then run more interviews – will the solution work, who is the early adopter, test pricing?



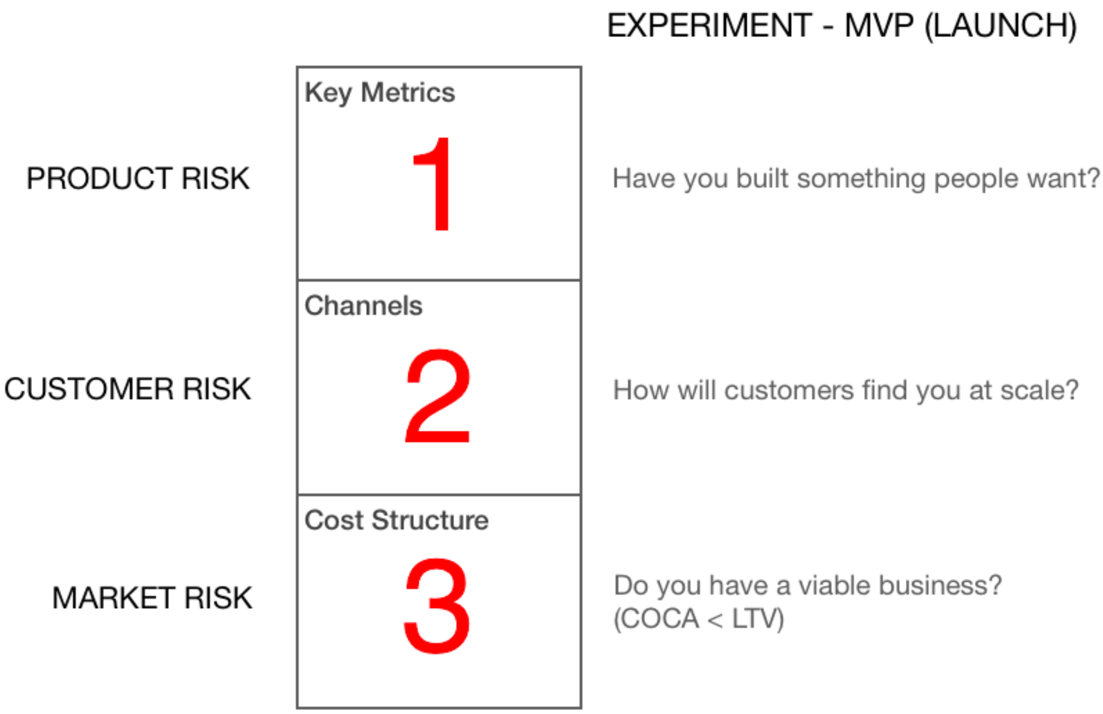
Stage 3: Validate Qualitatively

Build your MVP and then soft-launch it to your early adopters – do they realize the unique value proposition, how will you find enough early adopters to support learning, are you getting paid?



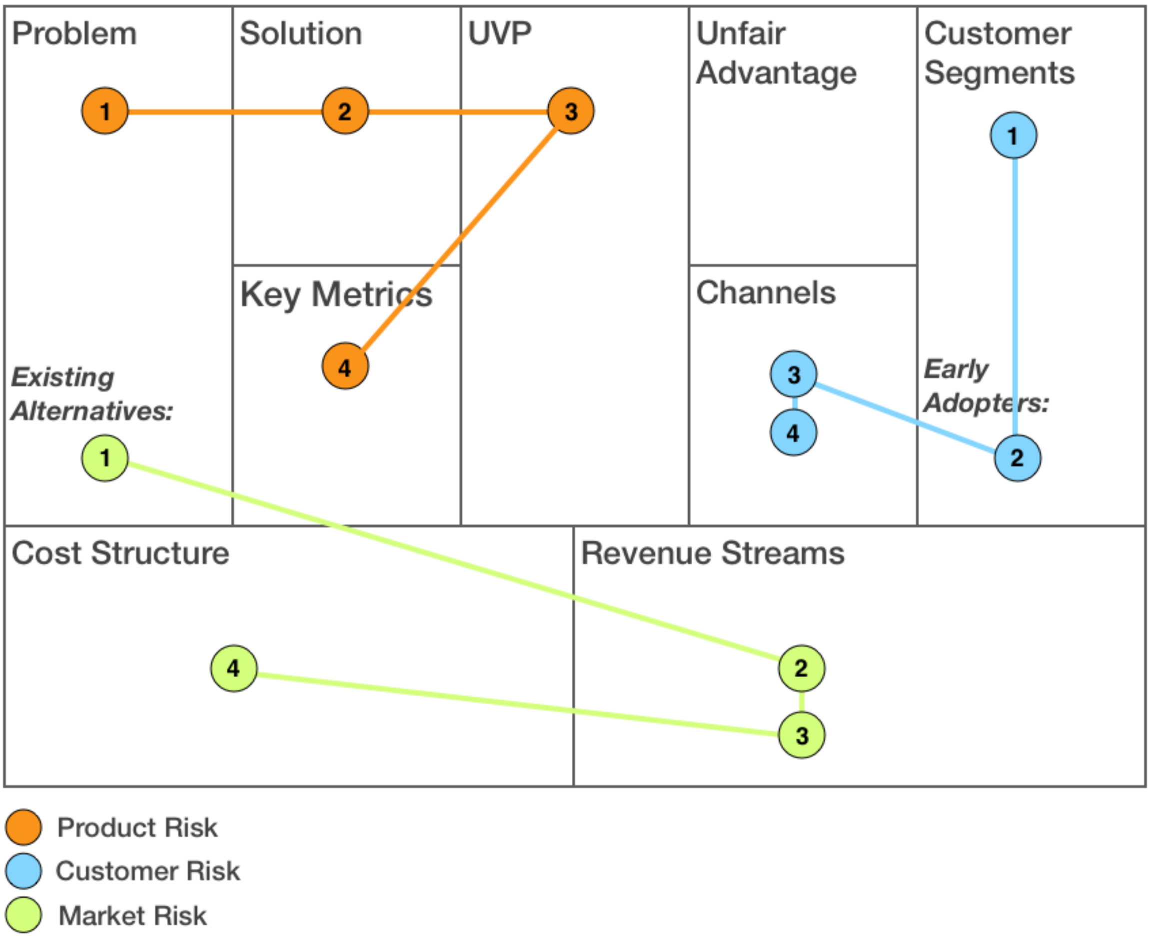
Stage 4: Verify Quantitatively

Launch your refined product to a larger audience – have you built something people want, how will you reach customers at scale, do you have a viable business?



Key Takeaways

The figure below charts the path around the canvas from which we'll derive some additional takeaways:



1. Getting the product right

First make sure you have a problem people care about, then build the smallest possible solution (MVP), validate it at small scale before verifying it at large scale.

2. Building a path to customers

First identify who has the pain, then narrow down to early adopters who really want your product now. It’s okay to start with outbound channels but gradually build/develop scalable inbound channels – the earlier the better.

3. Building a viable business

Identify competition through existing alternatives and pick a price for your solution. Test pricing first by measuring what customers say (verbal commitments) and then by what they do.

4. What about Unfair Advantage?

The only box not tackled is the unfair advantage box. This is because your true unfair advantage can only be tested in the face of competition. Up until you demonstrate Product/Market Fit you won't attract much (if any) competition.

Until then... Embrace obscurity – It's a gift.

Until next time…

Cheers,

Ash

P.S.
I want to hear from you. Drop me a note and tell me what you think or what I should write about.

P.P.S
In case you've found your way to this page but haven't signed up yet to the Running Lean Mastery newsletter, you can do that here. It's free.