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[Essentials of Software-as-a-Service \(SaaS\) Business](#)

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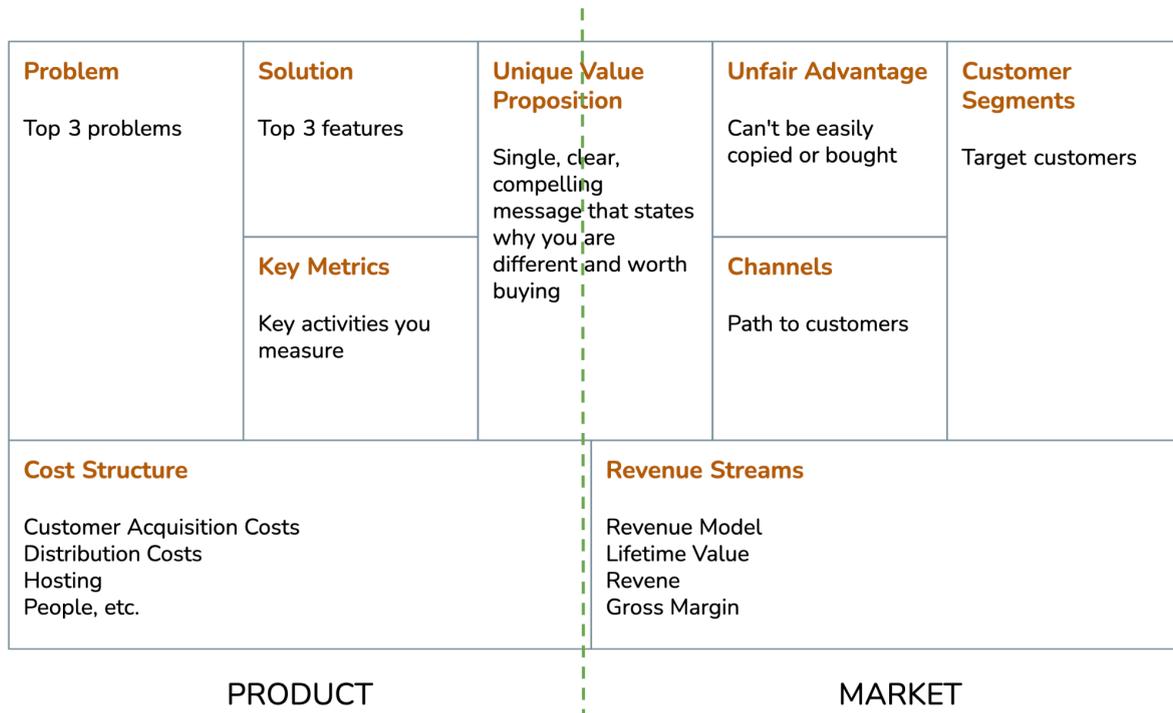
## Traditional vs. Lean Approach to Product Development - Part 2

In the previous video, we discussed the shift from the traditional approach to product development to the lean approach, which has heavily influenced the startup industry, including software as a service startups. In this video, we will explore three concrete techniques promoted by the lean startup approach to decrease the probability of startup failure and minimize the waste of resources.

The first technique involves **a significant shift in the mindset of entrepreneurs**. Each entrepreneur starts in the same way. He sees a problem that is occurring out there in the world, and figures out a possible solution to this problem. Then he focuses on building a venture and developing a product around that solution. However, according to Eric Ries and the lean startup approach, the entrepreneur often neglects to consider whether the problem truly exists. He thinks just about the solution, not about the problem itself. But is the problem really there? Quite likely what happens is that the entrepreneur delivers the solution, develops the product and offers it to the customers. And just now he comes to the realization that the problem is not really existent. The customers do not really feel the pain that the entrepreneur has assumed is existent. To address this issue, the lean startup approach suggests that entrepreneurs start by developing a small, partial solution to the presumed problem. This approach is less time-consuming and resource-intensive. By offering this partial solution to customers and collecting feedback, entrepreneurs can determine whether the problem genuinely exists, potentially saving significant time and resources if it does not. This shift in thinking is the first concrete technique from the lean startup approach.

The second technique involves an alternative to the traditional business plans. These traditional plans are time-consuming to develop and aim to predict the future of the venture, including revenues, costs, customer base, and product development plans. However, the lean startup approach says that these business plans rarely survive the first contact with customers. The insights gained from initial customer interactions are going to be really valuable for us, meaning that the original lengthy business plan we wrote is again a waste of resources. Furthermore, apart from venture capitalists, five-year business planning forecasts are rarely required. What matters most is the current and near-future activities, typically within a few months. The lean startup approach promotes the use of the

**Business Model Canvas** developed by Alexander Osterwalder as an alternative to the business plan.



This allows startups to visualize their entire business model on a single page, making it easier to identify potential issues and opportunities. Canvas is designed to be a living document that evolves with your business, allowing for quick iterations and adaptations based on market feedback. Let's take a look at it.

When using the canvas, you'll start by identifying **the top problems your venture aims to solve**. Following this, you'll outline the **features** of your product or service **that specifically address these problems**. The canvas also prompts you to determine **how you will measure the success** of your solution in solving these identified issues.

A crucial element of the canvas is **the Unique Value Proposition**. This is essentially your company's vision distilled into a single sentence. If you would describe your product in one sentence, what is it going to be? It is vital to articulate this clearly, as it forms the basis of how you'll persuade customers of your product's value. If you as an entrepreneur struggle to figure out this unique value proposition, it becomes challenging to convince potential customers of your product's worth.

The canvas also includes sections for your **unfair advantage**, meaning what sets your solution apart from competitors, and the channels that represent how you plan to reach your customers. Then you'll identify your target audience in **the customer segments section**, outline your primary expenses in the cost structure, and detail how your company will generate income in **the revenue streams section**.

As you can see, this business model canvas is a pretty straightforward and simple tool that serves as a very concrete technique of lean startup approach to minimize or eliminate the waste of resources during the product development process.

### **Practical example: Using Canvas Business Model**

Now, let's examine how we might use this canvas in a real-world scenario. Imagine we're founders of a new SaaS startup. Our product is an AI-powered project management tool designed to streamline workflows and increase productivity for small to medium-sized businesses. We want to use the Business Model Canvas to refine our business model. So we gather our core team - a product manager, developers, and a marketing specialist - in a room with a big whiteboard. We sketch out the Business Model Canvas and start with problems.

After some discussion, we identify three main issues our customers face: inefficient task management leading to project failures, frequently missed deadlines, and time-consuming manual reporting.

- **PROBLEM:** *inefficient task management, frequently missed deadlines, and time-consuming manual reporting*

Moving to the solution section, we outline how our AI-powered tool addresses these problems directly. We have an AI-powered task allocation system that assigns work based on team members' skills and current workload. We also want to have a predictive deadline management feature and an automated reporting function that saves significant time.

- **SOLUTION:** *AI-powered task allocation, Predictive deadline management, Automated reporting & analytics*

For our unique value proposition, we craft a concise statement: "AI-driven project management tool that significantly boosts productivity, increasing efficiency by up to 40%."

- **UNIQUE VALUE PROPOSITION:** *"AI-powered insights for seamless execution"*

Discussing our unfair advantage, we recognize that our proprietary AI algorithms give us a technological edge. We also note our team's deep industry expertise in project management, with over 15 years of combined experience.

- **UNFAIR ADVANTAGE:** *proprietary AI algorithms, 15+ years combined project management expertise*

When identifying customer segments, we focus on tech startups with 10-50 employees, creative agencies, and e-commerce companies with distributed teams. We believe these groups will benefit most from our solution and have the resources to adopt new technology.

- **CUSTOMER SEGMENTS:** *tech startups (10-50 employees), creative agencies, e-commerce companies*

For key metrics, we decide to measure our success through customer retention rate, task completion efficiency, and the average reduction in project completion time. These metrics will help us gauge both customer satisfaction and the real-world impact of our tool.

- **KEY METRICS:** *customer retention rate, task completion efficiency, the average reduction in project completion time*

Considering channels, we brainstorm ways to reach our customers. We settle on a mix of digital marketing channels including blogs and webinars, partnerships with other business software providers such as Github, and listings on major app stores.

- **CHANNELS:** *blogs and webinars, partnerships (Github), listings on app store*

In the cost structure section, we identify our main expenses: salaries for our development team, cloud hosting fees, and marketing costs.

- **COST STRUCTURE:** *salaries, cloud hosting, marketing costs*

Finally, for revenue streams, we determine that our income will primarily come from monthly subscription fees. We plan to offer a basic plan, a premium plan, and custom-priced enterprise plans with API access to cater to different customer needs and budgets.

- **REVENUE STREAMS:** *subscription fees*

After we've filled out the canvas, we'll likely focus on validating these core assumptions. The beauty of this process is its flexibility - as we learn and iterate, we'll come back to the canvas, updating and refining our model based on real-world feedback.

Now let's talk about the last lean startup technique that promotes “**get out of the building**” approach, popularized by Steve Blank.

When companies are developing products under the traditional thinking, they often fail to seek sufficient feedback from their customers. They would build strategies and products around an idea, only to reveal them to customers and discover a lack of appreciation for the new additions. The company's resources were wasted again. To combat this issue, the entrepreneur should take the "get out of the building" approach which says that:

- Instead of relying on assumptions, **entrepreneurs should engage directly with potential customers.**
- Before investing significant resources, **entrepreneurs can quickly validate their ideas** by presenting prototypes or new features to potential customers. This helps in gauging interest and willingness to pay.
- And **based on customer feedback, products can be refined and improved iteratively**, reducing the risk of developing features that don't resonate with the target market.

In the real world, implementing the "get out of the building" approach requires creativity and persistence. Imagine a startup developing an AI-powered inventory management system for small to medium-sized restaurants. They begin by attending local food industry expos and restaurant association meetings, using these opportunities to have brief, informal conversations with restaurant owners and managers about their inventory challenges.

To gather more structured feedback, the team creates short online surveys, distributing them through culinary forums and restaurant-focused Facebook groups. They also leverage personal and professional networks to secure introductions to local restaurateurs, offering to discuss inventory issues over a complimentary meal at their establishments.

The team might actively participate in online hospitality forums, offering helpful advice on food cost control while subtly gathering information about common inventory problems. This not only provides insights but also helps establish credibility in the restaurant community.

Once they develop a basic prototype, they set up a booth at a regional restaurant and bar show, offering quick 5-minute demos to interested attendees. To encourage ongoing feedback, they offer early access or discounted rates to restaurants willing to be part of an "advisory group."

Throughout this process, the startup gathers insights through a combination of brief interactions, online research, and network leveraging. They respect that most restaurant owners and managers have limited time, so they focus on extracting maximum value from these interactions.

So those were the three basic techniques promoted by the lean startup approach that can significantly decrease the probability of failure and minimize the waste of resources for SaaS startups.