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

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Validated Learning and Feedback Loops

While Agile methodologies like Scrum, Kanban, and Extreme Programming provide frameworks for flexible and iterative development, they don't inherently ensure that what we're building truly meets customer needs. This is where the concept of **Validated Learning** comes into play. Validated Learning, a key principle of the Lean Startup methodology, complements Agile practices by focusing on **how we learn and adapt based on real-world data**.

At its core, it's a systematic approach to product development that focuses on learning through rapid experimentation.

The process is straightforward yet powerful:

- 1. Start with an idea or hypothesis about what your users need.**

Start with an idea or hypothesis about what your users need or what problem your SaaS product could solve. This could be a new feature, a different pricing model, or even an entirely new product concept.

- 2. Quickly build a Minimum Viable product (MVP) of that idea.**

Create the simplest version - MVP of your idea that can still deliver value and elicit meaningful feedback.

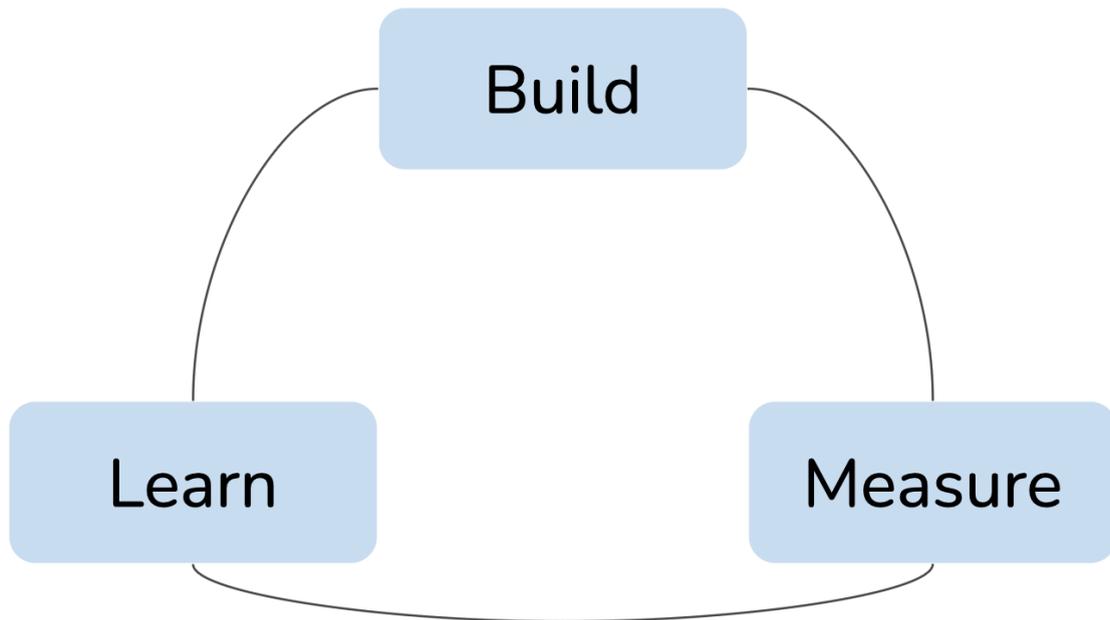
- 3. Release MVP to users and measure their response.**

Then launch your MVP to a subset of users or potential customers. Use analytics tools, user interviews, surveys, and other methods to gather data on how users interact with and respond to your MVP.

- 4. Learn from the results and use that knowledge to inform your next steps.**

And finally, analyze the data you've collected. Did users engage with the MVP as expected? Did it solve their problem? Use these insights to validate or invalidate your initial hypothesis and inform your next steps.

This approach allows SaaS companies to make informed decisions based on real-world data rather than assumptions or guesswork. But how do we put Validated Learning into practice? This is where the **Build-Measure-Learn cycle** comes in.



It is an iterative process, central to the Lean Startup methodology, and provides a structured way to implement Validated Learning in your SaaS development process. Let's break down each stage of this cycle:

1. Build: Creating a MVP

In the "Build" phase, your goal is to create a Minimum Viable Product - the smallest version of your idea that can provide value and generate meaningful feedback. For SaaS products, an MVP could take various forms:

- A landing page describing a proposed service to gauge interest
- A basic version of a new feature added to an existing product
- Or a prototype with core functionality but limited features

Also be sure to define clear, measurable goals before launching your MVP so you know what success looks like.

2. Measure: Gathering Data

Once your MVP is live, it's time to measure its impact. Many entrepreneurs do not see this as a simple practice. However, in SaaS development, you have numerous tools at your disposal to gather data, for example:

- Analytics tools to track user behavior, such as Google Analytics
- Then, key performance indicators like customer acquisition cost, churn rate, and customer lifetime value
- Or gathering customer feedback through surveys and interviews

The goal here is to collect data that will help you validate or invalidate your initial hypothesis. For instance, if visitors are engaging significantly with some of the features, it indicates that these are valuable and appealing to them. Conversely, if one feature is being largely ignored, it may suggest that it's not resonating with customers.

3. Learn: Analyzing Results and Making Decisions

The final stage is arguably the most critical - learning from the data you've gathered. This involves:

- Analyzing the data objectively
- Comparing results against your initial hypothesis
- Identifying insights and patterns
- and making data-driven decisions about next steps

Your results can be either positive or negative. Positive results indicate that the development was successful and appreciated by customers, while negative or neutral results suggest that resources were wrongly invested.

It's crucial to approach this stage with an open mind, avoiding biases that can lead to misinterpretation of data. Let's examine two common pitfalls.

- **Escalation of commitment:** *Continuing to invest in an idea despite negative results*

The first is the escalation of commitment, where the entrepreneur's commitment to the idea is so strong that they continue investing despite negative results. As a result, the entrepreneur will fail in this third stage of validated learning, meaning continuing to invest in an idea despite negative results.

- **Ego-defensiveness:** *Refusing to acknowledge missteps, especially if the idea came from a high-ranking team member*

The second bias that might occur is called ego-defensiveness. Let's say that the idea about the development and innovation came from the CEO of the company. Although the results are negative, the initiator of this idea will try to defend his or her own ego. He will not be willing to admit that he did something wrong. In that case, the team should work to persuade the entrepreneur to acknowledge any missteps.

Based on what you learn in this stage, you'll need to decide whether to persevere with your current strategy, pivot to a new approach, or abandon the idea altogether.

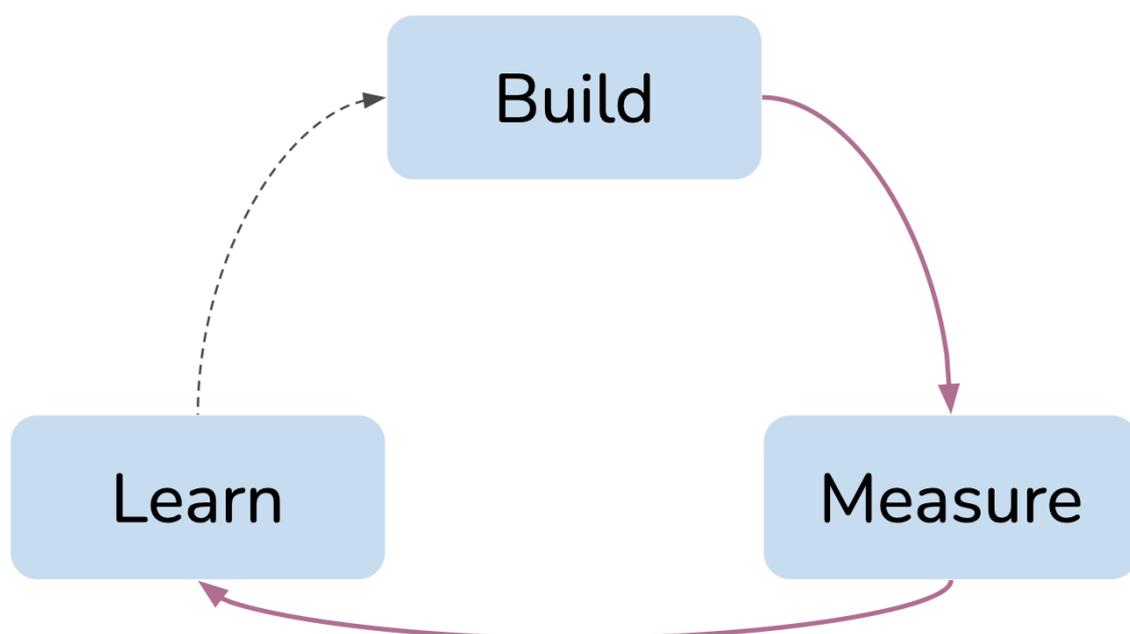
Take Instagram as an example. The team behind Instagram originally created an app called Burbn, which included location check-ins, photo sharing, and other features. By measuring user behavior, they learned that while most features were ignored, users loved sharing photos. They used this insight to pivot, focusing solely on photo sharing, which led to the creation of Instagram.

In summary, the Build-Measure-Learn cycle is not a one-time process but rather a continuous loop. Each iteration should be informed by what you learned in the previous cycle, allowing you to continuously refine your product to better meet user needs.

Feedback Loops

While the Build-Measure-Learn cycle provides a framework for Validated Learning, its effectiveness relies heavily on our ability to gather and interpret information from our users and the market. This is where **feedback loops** come into play. These are **structured processes for collecting, analyzing, and acting on information related to your product's performance and user experience.**

It's important to understand that there are **different perspectives** on how these loops should be executed. Traditionally, the feedback loop was thought to follow the sequence of **Build-Measure-Learn.**

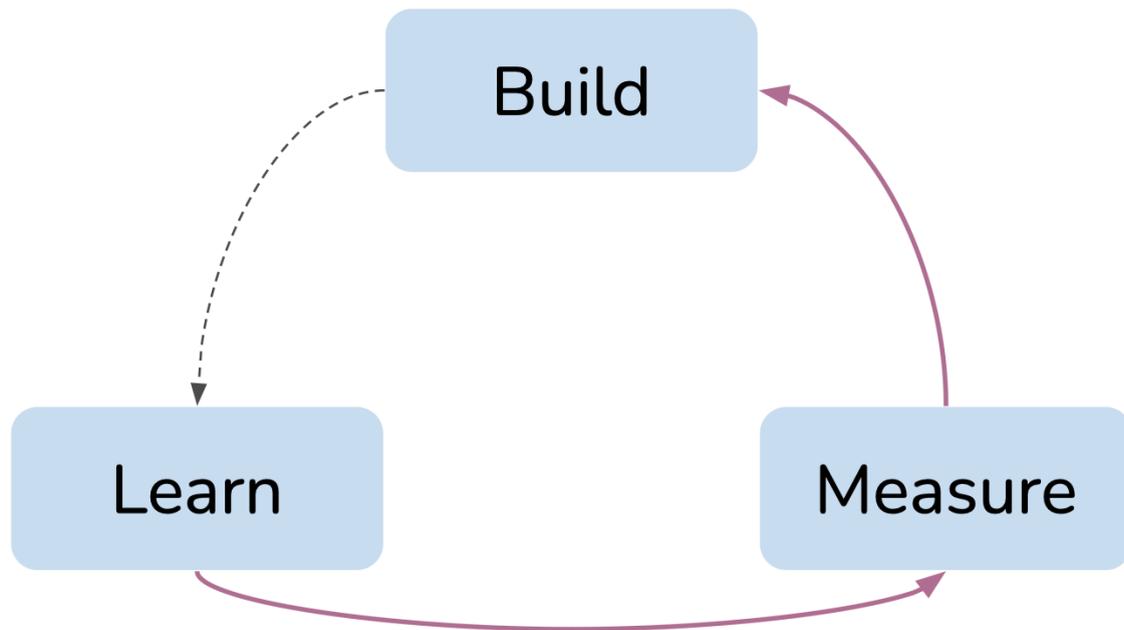


1. *Build something (a product or feature)*

2. *Measure its effect (gather data on user interaction)*
3. *And learn from the results (analyze the data to inform next steps)*

In this approach, you start by creating a product or feature, then observe how users interact with it, and finally use that information to guide future development.

However, proponents of the Lean Startup approach, including Eric Ries, suggest a different sequence: **Learn-Measure-Build**.



- a) *Learn (decide what knowledge you want to acquire)*
- b) *Measure (develop metrics to test your hypothesis)*
- c) *Build (create the minimum product needed to run the test)*

This approach emphasizes defining your learning objectives first, then determining how you'll measure success, and only then building the minimum product needed to test your hypothesis. It can be more efficient, especially for SaaS startups with limited resources, as it focuses development efforts on validated learning objectives.

In conclusion, regardless of the sequence chosen, the core principle remains the same: create a system that constantly collects data, analyzes it, and applies the resulting insights to enhance your SaaS product.