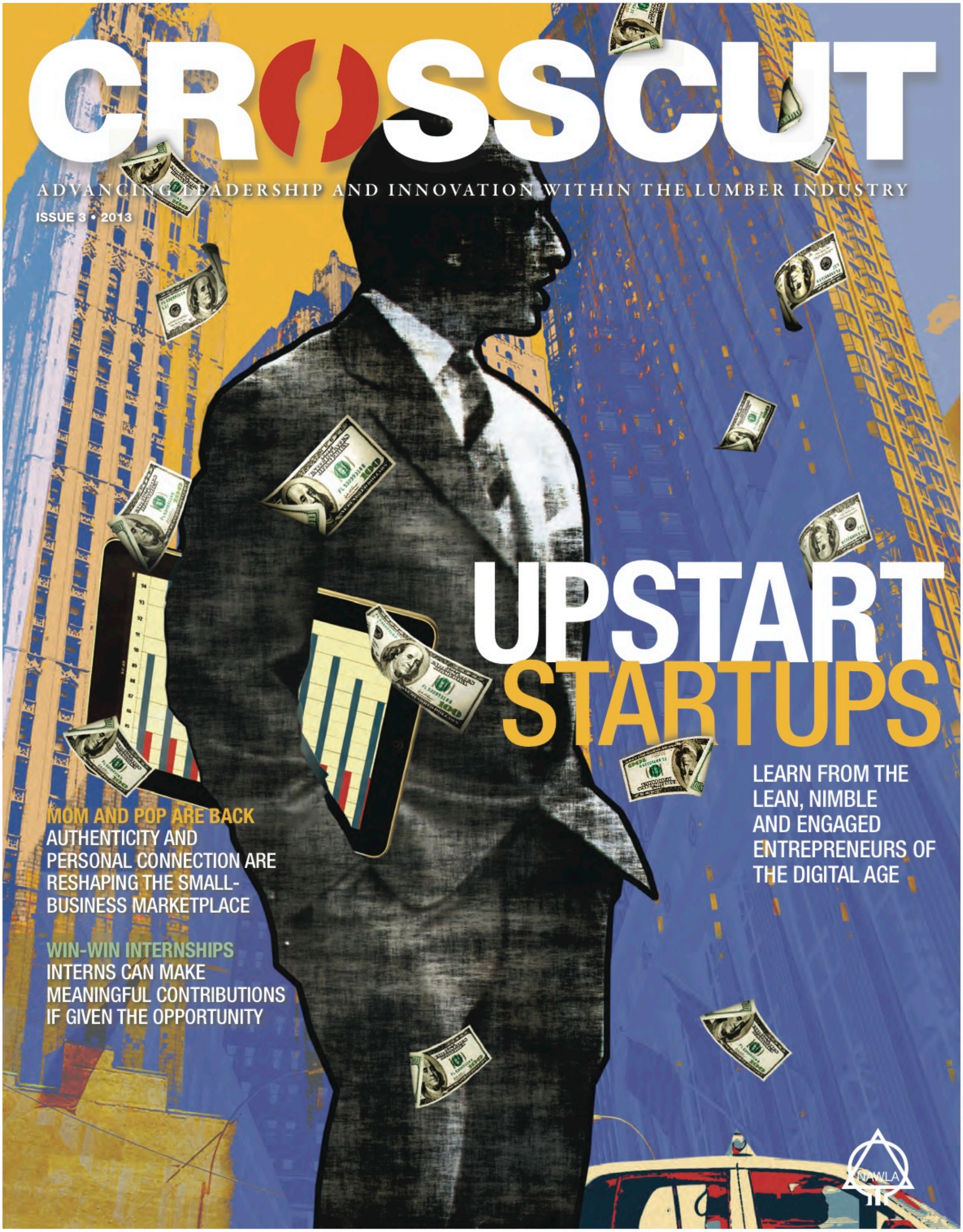
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ADVANCING LEADERSHIP AND INNOVATION WITHIN THE LUMBER INDUSTRY
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WHAT WOULD A STARTU DO?

BY MATT ALDERTON
ILLUSTRATION BY PETER HORVATH

BEFORE HE BECAME the brash billionaire featured on the cover of *Forbes*, Groupon's founder and former CEO Andrew Mason was a failure. He quit graduate school in 2006 when a private investor offered him $1 million in seed money to start The Point, a cause-based website that married crowdsourcing with fundraising. The idea was simple: Ignite social change by uniting individual donors around shared fundraising goals. By creating a "tipping point," Mason believed—anyone could create a campaign asking for donations, but only once a critical mass of people had agreed to contribute—users collectively could "solve the world's unsolvable problems."

Unfortunately, no one saw The Point's point. Less than a year after its launch in November 2007, Lehman Brothers filed for bankruptcy and Americans became engrossed in a struggle for economic survival. Mason was asking people to contribute money when most were fearful of losing it.

Unable to attract users, The Point was failing. Flailing, even. As layoffs ensued, Mason began searching for a lifeline. He found it in a community of users using The Point to pool their money, then buy goods and services in bulk at discounted rates. Inspired, Mason approached local businesses with an idea: If the vendor offered a discount, The Point would extend it to a promised number of customers in exchange for a percentage of the profits. If not enough customers signed up, the discount became moot and the vendor paid nothing.

Groupon was born. Just two years later, it raised $750 million in an initial public offering and was valued at $12.8 billion. And while its board of directors subsequently fired Mason, the company nonetheless achieved a 45 percent increase in annual revenues in 2012, to $2.33 billion.

Groupon is but one in a wave of startups that are not only shaping how new companies and industries are formed, but also influencing how endangered ones may be saved.

"Almost every large company now understands that doing the same things they were doing 20, 10 or even five years ago is probably going to put them out of business," says serial entrepreneur Steve Blank, a consulting associate professor of entrepreneurship at Stanford University and author of *The Startup Owner's Manual: The Step-by-Step Guide for Building a Great Company*. "Companies are grappling with how to make innovation an integral part of the DNA of corporations, because … the modern form of corporate organization doesn't work anymore."

If the current form of corporate organization is broken, startups like Groupon might be able to fix it.

'LEAN' MEAT

Seventy-five percent of startups fail, according to a 2012 study by Harvard Business School senior lecturer Shikhar Ghosh. The 25 percent that succeed, however, embody many lessons worth learning.

"The thing about startups that I think is valuable is they usually have no money, so they're really scrappy," says Ellen Rudnick, clinical professor of entrepreneurship at the University of Chicago's Booth School of Business, where she also is executive director of the Michael P. Polsky Center for Entrepreneurship. "They have to be very creative in how they use resources."


STARTUPS ARE LEAN, NIMBLE, QUICK AND ENGAGED. HERE ARE FIVE TIPS TO HELP YOUR COMPANY DISCOVER ITS INNER ENTREPRENEUR.

Do what start ups do: Sit back and say, “What does the market need and do we have a solution?”

Enter the “lean startup” methodology of business development, which originated in Silicon Valley with entrepreneur Eric Ries, who coined the term in 2008 and documented it in his 2011 book *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*.

“Almost every startup you can think of is using this methodology,” says Blank, whose 2005 book, *The Four Steps to the Epiphany: Successful Strategies for Products that Win,* inspired Ries. “The lean startup has three components: business model design, customer development and agile engineering. These three fairly unique ideas, when put together, give you a huge competitive advantage.”

Unlike a business plan, which requires months of planning and research resulting in pages of minutiae, a business model describes in bulleted form on one page how a company plans to create value for its customers.

“What lean startups do differently is accept that what they're starting with might be a hallucination rather than a vision,” explains Blank, who says a business model is understood as a series of untested hypotheses. The second and third components of the lean startup methodology—customer development and agile engineering—are all about testing those hypotheses. “These three things make up the lean startup, but it turns out that the same core principles work just as well in [established companies].”

THE ‘S’ FACTOR

From their three foundational components emerge the following five ingredients that make many lean startups successful:

1. Focus: “Startups have very limited resources, so they're forced to prioritize,” says Jonathan Axelrod, managing director of the Entrepreneurs Roundtable Accelerator (ERA), a New York-based early-stage seed fund and technology accelerator. “That enables them to be very, very focused on one problem, whereas larger companies are [usually focused on] dozens of problems.”Mason has said that lack of focus is one reason The Point failed: It was too broad, but Groupon had a very clear and narrow scope.

Likewise, “focus” is why accelerators—programs that mentor entrepreneurs through the startup process in pursuit of investors—produce so many successful companies. “Every one of those programs has a finite date [on which] everybody demos,” explains Will Flaherty, director of communications at SeatGeek, a ticket search engine that got its start in the Philadelphia-based accelerator Dreamit Ventures. “Focusing on one thing—getting your product launched by the date the program ends—creates a lot of positive pressure.”

2. Speed: The second component of the lean startup methodology, customer development, is all about speed—delivering your product quickly as opposed to completely—which companies achieve by releasing a “minimum viable product” that helps them ascertain—before investing substantial time and capital—whether there's a market for their product. Mason, for example, didn't wait until he had international reach to launch Groupon; he started it right away in a single local market, then built it one daily deal at a time, expanding and evolving as he went.

The founders of Stride, a streamlined customer relationship management (CRM) application, took a similar approach. Frustrated with overly complicated CRM solutions, they created product over the course of two pizza- and caffeine-fueled weekends. “When you build a minimum feature set, you demonstrate the core product and what it can do,” explains Kevin Chau, who manages the company's strategic growth. “When you release something that's feature-full and feature-rich, people aren't necessarily going to use all those features, so you've wasted a lot of time developing something someone isn't going to use.”

“Instead of trying to build the most elegant mousetrap to begin with,” echoes Axelrod, “it's about building the essential mousetrap.”

3. Agility: Agile engineering is central to the lean startup methodology. Based on the agile project management principles used by software developers, it's an iterative process marked by constant trial and error.

“It's putting out pieces of the product right away, getting feedback, seeing how your customers react and growing it from there,” says Dreamit Ventures Managing Partner Kerry Rupp. “Instead of having an expensive and long product-planning cycle with lots of internal discussion, you have shorter development cycles with lots of customer feedback.”

Dreamit graduate SupplyHog exemplifies perfectly the benefits of agile engineering. Its goal is automating the purchase of building materials by creating an online marketplace where contractors can quickly buy and ship directly from suppliers, who in turn can competitively bid for their business. Unfortunately, most suppliers still run their businesses offline. Instead of wasting time and money on an electronic fulfillment system that suppliers wouldn't use, therefore, SupplyHog only built the first half of its vision. As a result, contractors can purchase materials electronically, but suppliers can still use the manual processes they prefer.

4. Buy-in: Although it's sometimes a disadvantage, startups' small size can be beneficial, as the absence of hierarchy facilitates participative management and instills in all employees a sense of ownership in the business.

"At big corporations there's so much process involved to make decisions because you have to go through so many layers of approval," Flaherty says. "In a startup, you've only got one or two layers of approval and everyone in the company is empowered to make a decision."

The short distance between the top and the bottom of the organization means mission and vision are readily shared and clearly communicated. "Having a flatter management structure, more unity of vision and more investment of all employees in the overall mission of the company contributes to startups' ability to do so much more with so much less," Axelrod says.

5. Data: Because lean startups base their companies on hypotheses that must be proved or disproved, their founders are like scientists in a lab: They're guided by objective data, not subjective opinion.

"Sometimes, established companies think they understand the marketplace because they're already there," Rudnick says. "They'll come up with an idea, and then go out and look for a market instead of doing what startups do, which is sitting back and saying, 'What does the market need and do we have a solution?' Just because you have a product, you shouldn't assume the market needs it."

A common technique among lean startups is A/B testing—giving half of your customers one option and the other half another option, then seeing which performs better. "Whenever we find ourselves arguing internally about what's the right decision or the right direction, we … let the community at large make the decision through their actions," Rupp says.

A STARTUP STATE OF MIND

Mason is notoriously quirky. As CEO of Groupon, he was filmed doing yoga in his underwear in front of a Christmas tree, claimed "building miniature dollhouses" as a favorite hobby, and published a poem about supply and demand, the subject of which was vending machines. For those reasons and many others—not the least of which is startups' spectacular failure rate—emulating an entrepreneur reeks of questionable judgment. Nonetheless, borrowing one's approach can yield tremendous benefits.

At least, companies like Nordstrom think so. Although it's a Fortune 500 company, it's using the lean startup methodology in the Nordstrom Innovation Lab, where a team of 30 people develop technological innovations using concepts like "rapid experimentation" (i.e., agile engineering) and "validated learning" (i.e., customer development).

"When you take a team down to less than 50 people and have it work only on the things it's working

SUCCEED LIKE A STARTUP

Want to grow like Groupon? Evolve like Etsy? Profit like Pinterest? Consider these 10 commandments espoused by lean startups:

1. Narrow your focus.
2. Develop a minimum viable product.
3. Set firm deadlines.
4. Shorten your R&D cycles.
5. Seek continuous customer feedback.
6. Release fewer features more often.
7. Flatten your management structure.
8. Make data-based decisions.
9. Grow incrementally and iteratively.
10. Celebrate failure.

on, without influence from executives, it instantly develops more of a startup mindset," Chau says.

Other companies profit from the startup mentality more directly. "For example, in the pharmaceutical industry a lot of the new drugs are coming out of the biotech industry, which is small companies working exclusively on getting one drug to market," Rudnick says. "If you're a large pharmaceutical company, you can't afford to work on small drugs. So, you have a venture group that makes investments in small biotech companies; if one of them becomes big, you then have the ability to add it to your portfolio."

Whether you borrow from entrepreneurs or invest in them directly, perhaps the most important lesson you can learn from the lean startup is that of failure. An inevitable and important outcome of agile engineering, it's typically punished at established companies. At startups, however, it's encouraged. "Failure is an integral part of the learning process for new ventures," Blank concludes. "In my core business, failure should be the exception. But when I'm taking risks in new markets and new activities … I should be prepared for a series of low-cost failures because I'm experimenting rather than executing."

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