LEAN MARKETING FOR STARTUPS

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Abstract

The principles of lean production originated from the Japanese automobile industry in the mid-1940s. From there, the lean movement became a revolution. It forever transformed the way companies are created and managed. Today, marketers discover the power of lean, and understand its potential for their field of expertise. More especially, lean marketing is a game changer for startups. This research uncovers the process behind this new approach. The four-step process towards successful lean marketing is revealed, and starts with the elimination of wasteful marketing activities. Applying the principle of a ancient Italian economist, marketers will realize that a vast majority of their achievements result from a small proportion of their work. Second, by stretching available resources, they will learn how to do more with less. The separation between activities that ultimately create value for the customers and non-value added activities is critical. After outsourcing the latter, lean marketers will maximize the potential of their team. When employees are able to work on what they love to do, instead of nonessential tasks, their creative talent will be unleashed. Third, marketers need to understand the importance of becoming a revenue center for their company, as opposed to a cost center. This focus gave birth to the revenue marketer; one who not only knows how to calculate return on investment, but one who can reproduce, predict and scale marketing efforts. Last, lean marketers can optionally use the power of growth hacking; a marketing approach that can grow a startup overnight, or backfire in an instant. If properly applied, these steps unlock a world of opportunities for startups. The possibilities are endless.

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Introduction: From Lean Manufacturing to Lean Marketing

Toyota's Lean Production

At the end of the Second World War, the Toyoda family realized than the Japanese automobile industry needed to "catch up with America within three years."[1] Taiichi Ohno, production engineer at Toyota, was appointed to lead these efforts. He believed that he could dramatically increase productivity at Toyota's manufacturing plant by eliminating waste and inefficiencies. Those ideas laid the groundwork for the *Toyota Production System (TPS)*, which was developed and continuously improved between the mid-1940s and mid-1970s. The Toyota Production System thoroughly applied *jidoka*, the concept of intelligent automation with a human twist, which originated from Sakichi Toyoda, founder of the Toyoda Group. Jidoka was a key ingredient in the increase of productivity throughout Toyota's operations, by stretching their limited resources in equipment and capital. The second pillar of the TPS is just-in-time production, first imagined by Kiichiro Toyoda, defined by making "only what is needed, when it is needed, and in the quantity that is needed,"[2] preventing the wasteful build-up of inventories. Ohno further developed the concept after a visit to the United States in 1956.[3] He reportedly made his most pivotal discovery in a supermarket, by analyzing its innovative supply chain. Inspired by this unusual finding, the *kanban* system was invented in Japan, responsively matching inventory with demand.[4] Last, Toyota's production engineer was resolved to eliminate misuses in the production process, and identified the "seven wastes," also referred to by the Japanese term *muda*. These seven wastes included over-production, waiting, conveyance, processing, inventory, motion and correction, and were instrumental in Toyota's success, becoming the number one automobile manufacturer in the world.[5] Nowadays, the three concepts of intelligent automation, just-in-time and the seven wastes are known by automobile manufacturing industries around the world. However, some carmakers are still reluctant to change their production systems from the ground up to integrate these ideas fully.

Applications of Lean Thinking

Since Toyota's production system, a number of lean theories were researched within various industries. One of the most popular outgrowths of lean manufacturing was introduced

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1. "Taiichi Ohno." The Economist. July 03, 2009. http://www.economist.com/node/13941150.

2. Ton, Zeynep. "Cross-Train." In The Good Jobs Strategy: How the Smartest Companies Invest in Employees to Lower Costs and Boost Profits, 141. New Harvest, 2014.

3. "History of Toyota." Toyota Kentucky. Accessed March 22, 2015. http://toyotaky.com/history.asp.

4. "What Is Kanban?" LeanKit. Accessed March 22, 2015. http://leankit.com/kanban/what-is-kanban/.

5. "Seven Wastes." Lean Enterprise Institute. Accessed March 22, 2015. http://www.lean.org/Common/LexiconTerm.cfm?TermId=323.

by Eric Ries, author of *The Lean Startup*.[6] With a scientific approach, Ries' methodology aims at growing a business with maximum acceleration. His wildly successful strategy is being applied to startups in every possible field, from high tech to health care. Being lean is now an imperative for a vast majority of new entrepreneurs.

According to *Business Horizons*, journal of Indiana University, "studies indicate [that] marketing costs typically range from 40 to 60 percent of a product's selling price," and therefore, "activities that create greater marketing efficiencies should be embraced."[7] Is there a way to drive down the cost of marketing, while increasing its effectiveness? If waste reduction efforts can be applied to manufacturing as well as in the entrepreneurial sphere, how can a similar process be applied to marketing? By narrowing lean thinking to marketing activities, startups and small businesses might be able to cope with their limited budgets, and make the most of every marketing dollar spent. Assuming that large and irresponsive companies waste most of their monies failing to calculate their return on marketing investment (ROMI), quick-witted startups have a shot at winning this race.

What operational framework can be established by startups to best exploit lean marketing? We will see that the elimination of waste is the foundation of such framework. Also, by maximizing limited resources, startups can do more with less and strengthen productivity company-wide. Next, we will address the progress of performance measurements, and how a variety of tools can be used to determine the return on investment and other actionable metrics in a cost-efficient manner. The growing need for "growth hackers," will be discussed as well as their exceptional skills and unbelievable potential for a startup.

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6. Ries, Eric. *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*. New York: Crown Business, 2011.

7. Lowry, James R. "A Primer for Lean Marketing." *Business Horizons* 46, no. 3 (2003): 41-48. https://hbr.org/product/primer-for-lean-marketing/BH091-PDF-ENG.

Literature Review: The Evolution of Lean from 1990 to 2011

According to Shikhar Ghos, senior lecturer at Harvard Business School, as much as 75% of startups fail.[8] This mind-boggling figure was elaborated after collecting data from more than 2,000 startups, most of which received at least $1 million from venture backers. Additionally, Ghos noted that no significant improvement was noticed between 2000 and 2010. To put it briefly, the odds are wildly against entrepreneurs, and continue to be. These gloomy statistics would be enough to permanently discourage most business students to start an entrepreneurial venture. Indeed, we are taught about making rational decisions based on a logical cognitive process—and starting a company would defy any reasonable judgment. To avoid an inevitable setback, we would be better off following a more traditional career path, at the infinitely small risk of missing a once-in-a-lifetime opportunity.

However, the lean movement initiated by Toyota and generalized by others has recently been altering the future of entrepreneurship in a remarkably positive way. Entrepreneurs around the world can now rely on lean principles to offset the inherent risks from starting a new business. Overall, the following literature review exhibits the progresses of lean thinking across various industries and shows how the concept developed over more than 20 years, from 1990 to 2011. By thoroughly understanding the foundations of lean thinking, it will become elementary to develop a framework for the implementation of lean marketing.

The Machine That Changed the World (1990)

An in-depth understanding of lean is hard to achieve without first understanding its historical roots. As previously mentioned, lean thinking was a generalization of Toyota's lean production approach, which was developed after the mid-1940s. Written after conducting a $5 million, five-year study on the future of automobile, researchers from the Massachusetts Institute of Technology described how car manufacturers in North America in the 1990s were still stuck with a mass-production system that didn't change much from Henry Ford's first moving assembly line in 1913.[9]

This obvious oversight from General Motors and others taught us to the importance of continuous learning, a key element of lean thinking. Because American car manufacturers took mass-production systems for granted during decades, they rejected the fact that many improvements could still be added. For example, new sources of wastes during the production process were not identified. Instead, Japanese manufacturers brilliantly identified

8. Gage, Deborah. "The Venture Capital Secret: 3 Out of 4 Start-Ups Fail." The Wall Street Journal. September 20, 2012. http://www.wsj.com/articles/SB10000872396390443720204578004980476429190.

9. "The Evolution of Mass Production." Ford. Accessed March 23, 2015. http://www.ford.co.uk/experience-ford/Heritage/EvolutionOfMassProduction.

the different types of waste in their factories, dramatically increasing the production output and enabling an otherwise impossible zero defects quality program. In *The Machine That Changed the World*, Womack, Jones and Roos asserted that Western automobile manufacturers failed to learn from their Japanese competitors.[10] Today, Toyota passed General Motors as the world's largest automaker, proving their assumption true.

Lean is also about being flexible to changing market situations. During difficult times, lean management avoided extraneous layoffs, by promptly and efficiently restructuring the workforce. Additionally, just-in-time production prevented the expensive buildup of inventory and dangerous over-production issues when demand for cars decreased as a logical consequence of the financial crisis. Even tough the ideas of just-in-time production and effective inventory management are not directly applicable to marketing; the overall concept of flexibility was very valuable in this research. Moreover, Toyota's *jidoka*, or intelligent automation, is pertinent to our field of study and certainly is in every growth hackers' toolbox.

I found this book incredibly relevant, 25 years after its first publication. The big three American automakers, General Motors, Ford and Chrysler, are still struggling after the automotive industry crisis began in 2008. On the other hand, Toyota recovered at a faster rate, and their lean approach to manufacturing certainly has to do with it.

Lean Thinking (1996)

In another book published in 1996, *Lean Thinking,* Womack and Jones first coined the term "lean thinking," an attempt at generalizing lean production to other industries.[11] In this publication, they define it as follows:

> Lean thinking can be summarized in five principles: precisely specify *value* by specific product, identify the *value stream* for each product, make value *flow* without interruptions, let the consumer *pull* value from the producer, and pursue *perfection*. By clearly understanding these principles, and then trying them all together, managers can make full use of lean techniques and maintain a steady course.[12]

This definition of lean thinking laid the groundwork for the development and application of lean in a—somewhat surprising—multitude of industries, from lean branding to lean hospitals. According to Womack and Jones, "lean thinking is *lean* because it provides a way to do more and more with less and less—less human effort, less equipment, less time, and less space—while coming closer and closer to providing customers with exactly what they

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10. Womack, James P., Daniel T. Jones, and Daniel Roos. *The Machine That Changed the World: The Story of Lean Production-- Toyota's Secret Weapon in the Global Car Wars That Is Now Revolutionizing World Industry*. Reprint ed. Free Press, 2007. 3.

11. Womack, James P., and Daniel T. Jones. *Lean Thinking: Banish Waste and Create Wealth in Your Corporation*. New York: Simon & Schuster, 1996.

12. Womack, James P., and Daniel T. Jones. "From Lean Production to Lean Enterprise." In *Lean Thinking: Banish Waste and Create Wealth in Your Corporation*, 10. New York: Simon & Schuster, 1996.

want."[13] Lean thinking gives importance to everything that ultimately creates value for the end user, and discards everything that doesn't. This insight later became essential for the development of our analysis.

The Four Steps to the Epiphany (2005)

What if so many startups fail because of an outdated blueprint systematically used by would-be entrepreneurs? Steve Blank, one of Silicon Valley's most successful serial entrepreneur and Professor at Stanford University, Berkeley and Columbia, became one of the first to bring lean thinking to the entrepreneurial world. Blank regrets that "according to the decades-old formula, you write a business plan, pitch it to investors, assemble a team, introduce a product, and start selling as hard as you can."[14] Instead, he pushes for experimentation rather long-term planning, the latter becoming impossible to forecast in today's fast-moving environment—socially, economically and technologically. Therefore, startups must have the faculty and willpower to pivot whenever their business model is questioned by external parameters. Steve Blank challenges the conventional wisdom of creating a business plan, which he describes as "a static document that describes the size of an opportunity, the problem to be solved, and the solution that the new venture will provide."[15] Using this obsolete model, founders manage to obtain funding from venture capitalists, and use most it for product development purposes, "with little if any customer input." Only after spending a substantial amount of money on research and development will these companies start to collect feedback from potential customers. And as the data indicates, in too many cases, the product doesn't solve a problem or desire customers have, leading to the almost certain death of the entrepreneurial venture. To avoid this, Blank advises business owners always to choose "customer feedback over intuition." With his customer-centered approach in his bestselling classic *The Four Steps to the Epiphany*, Blank introduces the customer development model, consisting of customer discovery, customer validation, customer creation and company building.[16]

The Lean Startup (2011)

Being one of the first to apply Steve Blank's research, Eric Ries implemented this customer development model at IMVU, a three-dimensional social network based on virtual

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13. Womack, James P., and Daniel T. Jones. "Lean Thinking versus Muda." In *Lean Thinking: Banish Waste and Create Wealth in Your Corporation*, 15. New York: Simon & Schuster, 1996.

14. Blank, Steve. "Why the Lean Start-Up Changes Everything." Harvard Business Review. May 01, 2013. https://hbr.org/2013/05/why-the-lean-start-up-changes-everything.

15. Ibid.

16. Blank, Steve. *The Four Steps to the Epiphany: Successful Strategies for Products That Win*. 2nd ed. K&S Ranch, 2013.

worlds, serving as its CTO from 2004 to 2008.[17] IMVU became a success, with over 130 million registrants, and up to $50 million in annual revenue. During this journey, Ries and his team took a few unconventional and counterintuitive business decisions. And it just worked. Rather than shipping a finished software, the game was full of bugs and barely usable. The most surprising? They didn't hesitate to charge for it, and managed to get early adopters. Engineers at IMVU then worked with an extremely fast cycle time, pushing "new versions of [their] product dozens of time every single day,"[18] in an effort to gather customer feedback, which they sometimes chose to ignore. Although it may sound crazy, this approach became the basis for the global lean startup movement, preached in a growing number of organizations, from startups to large corporations, as well as governmental agencies, NGOs and the like.

According to Tim O'Reilly, CEO of O'Reilly Media, *The Lean Startup* is the ultimate answer to the question, "how can we learn more quickly what works, and discard what doesn't?"[19] Building upon the initial research conducted by Steve Blank, *The Lean Startup* contains five root principles. But before getting to Ries' methodology, let's have a look at his unusual definition of a startup. In a 2010 article on his blog *Startup Lessons Learned*, he describes it as a "human institution designed to deliver a new product or service under conditions of extreme uncertainty."[20]

This broad definition brings us to the first root principle Ries addresses in the book. During his extensive research and various conversations with practitioners of the lean startup model, Eric Ries found out that intrapreneurs had a lot of similarities with "garage startup" founders. Although the title of his publication limits the application of his concept to startups, Ries confirms that his methodology works for "any size company, even a very large enterprise, in any sector or industry."[21] Intrapreneurs—employees who are working on something new within an existing large business—can apply these principles to their internal venture. Admittedly, intrapreneurs use resources from the established organization in which they operate to fund their internal startup, offsetting the biggest challenge inherent in entrepreneurship. However, intrapreneurs in Fortune 500 companies also work under conditions of extreme uncertainty, because of the same fast-moving environment, requiring fundamental breakthroughs in the way they operate.

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17. Ries, Eric. LinkedIn Profile. Accessed February 9, 2015. https://www.linkedin.com/in/eries.

18. Ries, Eric. Introduction. In *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*, 4. New York: Crown Business, 2011.

19. Reilly, Tim O' "The Lean Series." O'Reilly Media. Accessed March 14, 2015. http://shop.oreilly.com/category/series/lean.do.

20. Ries, Eric. "What Is a Startup?" Startup Lessons Learned. June 21, 2010. http://www.startuplessonslearned.com/2010/06/what-is-startup.html.

21. Ries, Eric. Introduction. In *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*, 8. New York: Crown Business, 2011.

Second, *The Lean Startup* advocates that entrepreneurship requires a new kind of management. Because the journey is unpredictable, it takes a rare breed of managers, who can see the big picture. An inexperienced manager would focus on immediate profits rather than long-term achievements. Another would not be able to create a culture of systematic creativity and innovation. In *Creativity, Inc.*, Mauzy and Harriman conclude that "to survive and prosper in the long-term, people in companies need to create and innovate. And they need to do so as regularly and reliably as they breathe."[22] Their research shows that intrinsic motivation dramatically enhances creativity, as opposed to extrinsic motivation. Managers who command subordinates too strictly undermine intrinsic motivation within their team. On the other hand, executives who fail to set clear guidelines and innovation objectives do not maximize the potential of their employees. In this regard, entrepreneurship requires subtle management in a sense that a certain balance should be sought after.

Counterintuitively, profit is not the primary goal of a startup. Preferably, their one goal should be to learn about how to build and sustain their activity. But not all information is worth considering, according to Eric Ries, who favors "validated learning." Validated learning is necessary to verify leap-of-faith assumptions as the entire business model depends on their validity. If given a scientific approach, extensive testing is the best way to do just that. Ideally, the manager has an engineering background and can apply this level of maneuvering to his supervision. Collecting customer feedback early on in the development process and carefully considering users' comments is one of the most common way to acquire validated learning. Driving conversations with potential customers can yield significant insight as to the direction to adopt. Running split-test experiments, is an excellent way to analyze customer behavior implicitly. Using A/B testing, entrepreneurs can figure out which version of a product or packaging results in the most number of conversions. In fact, new technologies make it easier than ever to run these experiments and the most effective version of a banner ad or landing page can be determined overnight, with only a little up-front investment. This finding was one of the best demonstration of the potential that lean could have on marketing. Altogether, these experiments generate actionable metrics, as opposed to vanity metrics often used by entrepreneurs. Vanity metrics, which frequently include number of unique visits to a website or the number of downloads of a mobile application will ultimately lead to a startup's failure. Actionable metrics, such as a website's conversion rate or an application's retention rate are much more valuable and should always gain the preference of managers when it comes to decision-making.

The fourth central idea fostered by *The Lean Startup* is the build—measure—learn feedback loop, basis for the lean methodology. This loop begins with the development of a minimum viable product (MVP) to start the learning process as quickly as possible. Getting a preliminary prototype to the hands of potential users early in the development phase is a good

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22. Mauzy, Jeff, and Richard Harriman. Introduction. In *Creativity, Inc.: Building an Inventive Organization*, 1. Boston: Harvard Business School Press, 2003.

way to evaluate product/market fit (PMF), the foundation of the startup pyramid.[23] As a guest speaker for Sam Altman's "How to Start a Startup" class at Stanford, Paul Graham, co-founder of Y Combinator, emphasizes the fact that we should "make something customers actually want."[24] Eric Ries follows Steve Jobs' spirit that "people don't know what they want until you show it to them."[25] Before wasting time and money into a full-featured prototype that provides a marketable solution to the initial idea, entrepreneurs need to build a range of minimum viable products in a matter of hours or days, at most. Then begins the measuring process, by distributing MVPs to a segment of the target market, and gather feedback by having numerous conversations with early adopters. As previously mentioned, the measuring stage should adopt a strictly scientific approach. Every assumption taken for granted by founders should be tested, even tough the results may be remarkably discouraging. After obtaining validated learning, a business owner can determine whether to persevere or to pivot, and test a new hypothesis for the business model. I realize that most entrepreneurs fail to accept findings from the measuring stage. Giving up on an idea after months of research and development seems like a waste of time and money. A large proportion of them continue, ignoring the facts before their eyes. When going through the build—measure—learn loop, entrepreneurs should ignore their emotions, which might be responsible for awful business decisions.

This brings us to the last concept pioneered by Eric Ries, innovation accounting. Because profit is not the goal of a startup, we need a need kind of metric to check if we are on the right track. Innovation accounting includes learning milestones as a way to track progress in a lean organization. These milestones also help determine how fast a startup goes through the build—measure—learn loop. The more iterations of a product or service a firm can produce, the more data they will collect from potential users, and the more knowledge they will acquire. After implementing the above processes within the business, the only goal should be to accelerate. In other words, the real destination is to go through the feedback loop as fast as possible until product/market fit is clearly achieved.

To conclude, Eric Ries adds "startup success can be engineered by following the process, which means it can be learned, which means it can be taught."[26] After reading the previous statement, I wondered about the potential of lean in marketing departments. What if marketing success could be engineered by following the process, which means it could be learned, which means it could be taught? Given that marketing costs be as high as 60% of a

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23. See Appendix A.

24. Graham, Paul. "How to Start a Startup." Paul Graham. March 2005. http://www.paulgraham.com/start.html.

25. Mui, Chunka. "Five Dangerous Lessons to Learn From Steve Jobs." Forbes. October 17, 2011. http://www.forbes.com/sites/chunkamui/2011/10/17/five-dangerous-lessons-to-learn-from-steve-jobs/.

26. Ries, Eric. Introduction. In *The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses*, 3. New York: Crown Business, 2011.

product's selling price, eliminating wastes and becoming more responsive would be a fundamental breakthrough in marketing and sales.

Analysis: Lean Marketing for Startups

The operational framework to be established by startups to best exploit lean marketing is articulated as follow and will serve as a structure for our subsequent analysis:

1. Cutting Waste
2. Stretching Limited Resources
3. Better Measuring ROI
4. Unlocking the Power of Growth Hacking

Cutting Waste

As taught by Taiichi Ohno, the identification of waste in an activity or process is the first step towards leanness. In 2003, Jenkins and Gregory adapted the seven *mudas* from Toyota's production line to the seven common wastes in marketing activities.[27] They are defined as follow and will be discussed in further details next:

1. Activity (over production)
2. People (over capacity)
3. Processes (over complication)
4. Waiting (poor communication)
5. Excessive Communication Costs
6. Trial and Error
7. Excessive Lead Costs

As indicated by the Pareto principle, "80 percent of outputs result from 20 percent of inputs."[28] I find that this law is a good way to look at the first area of marketing waste, over-production. What if 80% of sales resulted from only 20% of marketing activities? That would suppose that as much as 80% of marketing activities are wasted. To put that in perspective, it means that out of the $503 billion spent in 2013 in advertising globally,[29] more than $400 billion were wasted by marketers! As Jenkins and Gregory put it, "[companies have] budget to spend and any marketing activity is seen as good activity." With proper planning and research, marketers would realize that not all campaigns have a direct and positive impact on their bottom line. Of course, this is easier said than done. We will discuss some of the new

27. Jenkins, Debbie, and Joe Gregory. "Is Your Marketing a Waste of Money?" In *The Gorillas Want Bananas: The Lean Marketing Handbook for Small Expert Businesses*, 7-11. Birmingham: Lean Marketing, 2003.

28. Koch, Richard. *The 80/20 Principle: The Secret of Achieving More with Less*. Reprint ed. New York: Crown Business, 1999.

29. Lunden, Ingrid. "Digital Ads Will Be 22% Of All U.S. Ad Spend In 2013, Mobile Ads 3.7%; Total Global Ad Spend In 2013 $503B." TechCrunch. September 30, 2013. http://techcrunch.com/2013/09/30/digital-ads-will-be-22-of-all-u-s-ad-spend-in-2013-mobile-ads-3-7-total-gobal-ad-spend-in-2013-503b-says-zenithoptimedia/.

ways to measure return on marketing investment in the third unit of analysis. Using these, wasteful campaigns and over production will be eliminated, leaving more time and resources to focus on what is proven to be working and worthwhile.

Overcapacity is another big area of waste for many companies; even tough everyone might claim their department to be understaffed. But after cutting the 80% of activities that only resulted in 20% of outcomes, employees will quickly find themselves bored. After reducing wasteful activities, a chunk of the staff will naturally become obsolete. In their early days, startups have varying needs at different incubation stages. R&D will represent a majority of a startup's expenditures before product launch. However, researchers, engineers and developers won't necessarily be needed during later stages. Therefore, flexibility in terms of people is an imperative for small businesses, which have limited resources to hire multiple engineers full-time. Temporary employment helps dealing with these situations. It requires strategic planning to restructure departments when such needs change. Companies and especially startups need to focus on hiring only great people, regardless of current job openings. Lean marketing departments will necessarily restructure over the course of a few years. Having great people on board will facilitate this process because each employee can be exceptional at performing a wide variety of tasks.

The simplification of processes was the basis for lean thinking. Toyota's supply chain constantly evolved with incremental improvements. Although a marketer's value chain is more challenging to analyze—because of its intangible nature—it is not impossible. To make it easier, new measurement tools need to be introduced. As Jenkins and Gregory put it, "once you begin to measure success against strategic key performance indicators you will have the information to improve continuously and reduce waste even further." When repeatedly performed over a long period of time, processes become habits. Some call it the *status quo*. Even the most obviously wasteful activities become anchored within an organization, and nobody dares to challenge them. Mauzy and Harriman describe it as breaking and making connections, one of the dynamics at the heart of the creative process.[30] Defiers of the status quo will have a hard time defending their point of view because it might be radically different from others' habits. Lean marketing managers will have to accept such ideas and foster their implementation. Value stream mapping is a lean marketer's best friend to analyze the series of events from the inception of a marketing plan to its eventual application. After mapping out processes, non-value added activities will be identified. These wasteful activities generally make up as much as 95% of all activities performed by an enterprise, leaving much room for improvement.[31]

Poor communication is the next source of waste according to lean marketing theories.

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30. Mauzy, Jeff, and Richard Harriman. "Breaking and Making Connections for an Enterprise." In *Creativity, Inc.: Building an Inventive Organization*, 55-83. Boston: Harvard Business School Press, 2003.

31. "Lean Manufacturing." Iowa State University: Facilities Planning and Management. Accessed March 30, 2015. http://www.fpm.iastate.edu/worldclass/lean.asp.

The most obvious element is the disconnection between marketing and sales. A 2013 CSO Insights study found out that 67% of sales VPs asked to rate their marketing department judged the quality of leads to be insufficient.[32] The lack of alignment between marketing and sales is recognized by many. The same study determined that "aligning sales and marketing" was the second most wanted improvement in order to improve sales effectiveness. When marketing and sales synergy is achieved, both departments can share their vision, plan and key findings. Qualified leads will move more quickly through the sales funnel. Ultimately, their combined efforts will pay off.

Excessive communication costs occur when marketers are unable to perceive how new technologies could reduce expenditures. For example, a 21st century business does not send invoices by mail. Significant savings in postage costs could be achieved using e-mail, not mentioning the increase in customer satisfaction. Lean marketers should identify such superfluous costs, and eliminate them. As described in *The Gorillas Want Bananas*, lean practitioners can, for example, scientifically determine how many times per day customer support gets asked the same questions. These frequently asked questions could then systematically be added to the website's FAQ page or displayed more prominently on the order confirmation e-mail. Although self-evident, these small improvements are often ignored by companies of all sizes.

Trial and error results from the guesswork of marketers when setting up a new marketing campaign. Of course, since many decisions are based on "educated guesses," it is impossible to eliminate trial and error entirely. Trial and error is needed because it provides invaluable validated learning to the entire marketing team. However, major inefficiencies in this process can be avoided. I believe that marketers should have somewhere to systematically document all of their experiments, the expected results, as well as the eventual outcomes. With the help of technology, such a database within an organization could bring a priceless wealth of resources for future marketing activities. This database would be key to cut costs, preventing marketers to run similar trials with already predictable results.

Excessive lead costs are the last of the seven sources of waste for marketers. Often, high lead costs might indicate that the sought after market segment is not the right one. A lean approach would be to assess the characteristics of existing customers scientifically. As soon as you find a common thread, you know what niche will be more responsive to your marketing efforts. By focusing on that specific target market, lead costs will usually decrease. Another approach is to introduce a customer referral program, and let your existing customers do the job for you. With a few tweaks on your website or software, your customers will be glad to become brand ambassadors for your company, as long as you reward them appropriately.

This seven-step cost-cutting exercise is only the first one towards lean marketing.

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32. Qaqish, Debbie. "The Revenue Marketing Journey." In *Rise of the Revenue Marketer*. BookLogix, 2013.

After identifying and eliminating these areas of waste, lean marketers will be able to move on to the next goal, stretching limited resources.

Stretching Limited Resources

Doing more with less. It should be the mantra of all entrepreneurs. Maximizing available resources is the best way to achieve greater efficiency. By improving every process, productivity will dramatically be enhanced. But this comes with one challenge. Stretching resources should not remove value. Value-adding activities are the only activities that matter for a startup. Therefore, trying to do more with less should only be applied to activities that do not—directly or indirectly—add value to your customers. Outsourcing selected non-value added activities is known as one of the best way to make the most of your time as a marketer. Using the same value stream map generated from the first stage of this analysis, lean marketers can determine what to outsource—and perhaps more importantly, what not to outsource.

More than reducing costs, eliminating time-consuming tasks will free up marketers' time, enabling them to create more. At 3M, one of Fortune's 25 best companies to work for in 2011,[33] employees were encouraged to work on self-initiated projects at work. The experiment kept creativity alive at this large American conglomerate.[34] Instead of working on non-value added tasks, employees are pushed to follow their interests, thereby becoming intrinsically motivated. Intrinsic motivation was proven to be positively correlated with productivity,[35] therefore maximizing the workforce's potential.

In the startup world, maximizing scarce resources is taken to the extreme and known as bootstrapping, defined by:

> Building a business out of very little or virtually nothing. Boot strappers rely usually on personal income and savings, sweat equity, lowest possible operating costs, fast inventory turnaround, and a cash-only approach to selling.[36]

In *The $100 Startup*, Chris Guillebeau confirms that radically successful businesses can be bootstrapped with less than one hundred dollars.[37] Some of his examples include

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33. "25 Best Global Companies to Work For." Fortune. October 28, 2011. http://archive.fortune.com/galleries/2011/fortune/1110/gallery.best_companies_global.fortune/17.html.

34. Mauzy, Jeff, and Richard Harriman. "The Climate for Creativity in an Enterprise." In *Creativity, Inc.: Building an Inventive Organization*, 98. Boston: Harvard Business School Press, 2003.

35. Becchetti, Leonardo, Stefano Castriota, and Ermanno C. Tortia. "Productivity, Wages and Intrinsic Motivations." *Small Business Economics* 41, no. 2 (May 4, 2012): 379-99. http://link.springer.com/article/10.1007%2Fs11187-012-9431-2.

36. "Bootstrapping." BusinessDictionary.com. Accessed March 30, 2015. http://www.businessdictionary.com/definition/bootstrapping.html.

37. Guillebeau, Chris. *The $100 Startup: Reinvent the Way You Make a Living, Do What You Love, and Create a New Future*. New York: Crown Business, 2012.

"microbusinesses" with six-figures net annual income, started with a ridiculously low up-front investment. My personal favorite bootstrapped company is 37signals (now Basecamp). Rather than wasting money on expensive PR stunts, 37signals built marketing in every aspect of their products. Jason Fried, co-founder of the company an author of *Rework*, views marketing as something everyone in the company is doing 24/7/365.[38] And their strategy worked great. Their flagship product, Basecamp, a project management web application is now used by over 15 million people. 37signals systematically rejected outside venture capital for six years, stretching their internal capabilities as far as possible.[39] Lack of money forced 37signals to build a product that had to quickly generated revenue. In my opinion, the same approach can be used by most—if not all—startups that are seeking outside investments. In the first place, they should prove their aptitude to create a minimum viable product, find their target market and demonstrate their ability to generate a first stream of revenue. Outside capital should only be sought as they scale, trying to get from 1,000 to 1,000,000 users.

Better Measuring ROI

Return on marketing investment (ROMI) is difficult to calculate for many different reasons. All marketing mediums use different metrics, making it harder to compare one with another. Also, most platforms don't offer effective ways to measure conversions—perhaps with the exception of search engine marketing (SEM). Therefore, most marketing plans are based on "educated guesses" rather than clear-cut projections. More and more marketers understand the need for them to prove the effectiveness of their activities to the people who hold them accountable. This trend gave birth to the idea of revenue marketing, explored by Debbie Qaqish at The Pedowitz Group.[40] Practitioners of this model are expected to get their marketing endeavors through four stages, from traditional marketing to revenue marketing.[41] At the end of the fourth and final stage, marketers will be able to calculate ROI and forecast revenue. Most importantly, they will be able to determine the effectiveness of each marketing activity and cut marketing wastes as a result. Through strategic alignment with sales, intelligent marketing automation and optimization of systems and processes, marketing efforts become "repeatable, predictable and scalable."[42] In other words, revenue marketers can accurately forecast that with every extra marketing dollar, sales will increase by a given percentage. With this information handy, C-level executives stop considering the marketing

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38. Fried, Jason, and David Heinemeier. Hansson. "Promotion." In *Rework*, 193-94. New York: Crown Business, 2010.

39. Cerny, Jeff. "10 Questions on REthinking the WORKplace: An Interview with 37signals' Jason Fried." TechRepublic. February 10, 2010. http://www.techrepublic.com/blog/10-things/10-questions-on-rethinking-the-workplace-an-interview-with-37signals-jason-fried/.

40. Qaqish, Debbie. *Rise of the Revenue Marketer*. BookLogix, 2013.

41. See Appendix B.

42. Ibid.

department as a cost center, but as a beneficial revenue center.

Unlocking the Power of Growth Hacking

Sean Ellis first coined the term “growth hacker” in a 2010 post on his blog, *Startup Marketing*. He defines a growth hacker as “a person whose true north is growth.”[43] Growth hackers think of creative ways to grow the business. They don’t complain about limited marketing resources. On the contrary, growth hackers like to accept challenges. As Brittany Laughlin, General Manager at Union Square Venture comments, "just ask where [a] person would invest if they were given $100. A growth hacker will be resourceful and find a way to maximize gaining new users with that budget. You’re not a growth hacker if you say that amount is too small to do anything.”[44] This new kind of marketers have a full grasp of lean marketing, but they go one step further. They constantly reject traditional marketing methods. Press releases are time-consuming, TV commercials are too expensive. Instead, a number of high-tech companies embraced a new way to think about their marketing efforts. One that is built into the product during the research and development phase. One that works regardless of how small a startup’s budget is.

Sabeer Bhatia and Jack Smith are believed to be the first-ever to adopt such a bold approach to marketing, with the help of investor Tim Draper. In 1996, they created a free web-based e-mail service and were discussing ways to market their product. After discussing billboard and radio ads, they realized that the return on investment would necessarily be negative. Back to the drawing board, they looked at ways to build marketing at the heart of their product. The big “aha moment” came from Draper, who suggested adding “P.S.: I love you. Get your free e-mail at Hotmail” at the end of every message sent from the provider. Needless to say, it became instantly viral. Awareness of the free web service grew with every new e-mail. Thirty months after its launch, Hotmail had 30 million users and was sold to Microsoft for $400 million in late 1997.[45] Since then, a number of companies have replicated a similar pattern. Airbnb, an online service allowing people to rent their rooms or houses to travelers, used one of the most ingenious growth hack. At first, Brian Chesky and Joe Gebbia struggled to attract early adopters. Their main competitor was Craigslist, which already had millions of visitors. By combining marketing skills with engineering genius, they achieved what seemed to be impossible to others. Leaving the technical difficulties aside, they found a way to publish every new listing on their platform automatically to Craigslist.[46] As a

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43. Ellis, Sean. "Find a Growth Hacker for Your Startup." Startup Marketing. July 26, 2010. http://www.startup-marketing.com/where-are-all-the-growth-hackers/.

44. Ibid.

45. Ransdell, Eric. "Network Effects." Fast Company. August 31, 1999. http://www.fastcompany.com/37621/network-effects.

46. Brown, Morgan. "Airbnb: The Growth Story You Didn't Know." GrowthHackers. Accessed March 30, 2015. https://growthhackers.com/companies/airbnb/.

consequence, Craigslist users looking for a space to rent would systematically be redirected to Airbnb listings. In the future, they would be likely to come back on Airbnb rather than Craigslist because Airbnb had a nicer layout and professional-looking images. This cross-platform integration sounds easy on paper, but it was a technological breakthrough because the process was prohibited by Craigslist. A lean marketer would usually abandon as soon as they find out that their idea is not permitted, or technologically feasible. A growth hacker goes even further. The ideal growth hacker has an engineering background, and the creativity to come up with such innovative hacks. So what exactly does such a person do on a daily basis? What process does this special kind of marketer go through in order to achieve his ultimate goal, exponential growth?

According to Ryan Holiday, author of *Growth Hacker Marketing*, the growth hacker marketing loop is composed of four steps.[47] Starting with, growth hackers should get to product/market fit. In other words, growth hacking is only possible when you have a product people want or need. If not, no matter how brilliant the marketing strategy is, the results won't be optimal. There are a few tools in a growth hacker's toolbox in order to get to product/market fit. As we have learned from the lean startup methodology, customer feedback is very important in the early development stage. Free online survey tools such as Google Docs, SurveyMonkey and Qualtrics can help you put up a small market research in a matter of hours. You can quickly spread it to your network and start testing ideas for your the name of your next venture or new book, their feelings towards your new logo, or asking them about your projected pricing strategy. Chances are, friends, family and fools (FFF) will be keen to help you out, and might become early adopters of your new offering. Combining Google AdWords with Google Analytics is a good way to run A/B testings in a cost-efficient manner. Create two versions of your landing page, run two ads linking to both pages, and wait for a few days until you get enough data to determine which page had a better conversion rate. Ryan Holiday cites KISSmetrics and Optimizely as other great tools to analyze visitors' behavior on a website.[48] In short, growth hackers never miss an opportunity to learn from these powerful tools, and keep testing every single assumption, ensuring product/market fit always to be attained.

The second step is to find the appropriate growth hack for the product or service being marketed. Depending on the business and industry, not all hacks will be suitable. Ideally, the growth hacker can participate in the development of the idea, and be able to find the right growth hack from the ground up. Of course, this is the ideal scenario and usually not the most common. One can argue that a good growth hacker will still be able to tweak the product until they find the iteration that finally enables viral growth. To start with and to maximize

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47. See Appendix C.

48. Holiday, Ryan. "It Begins with Product Market Fit." In *Growth Hacker Marketing: A Primer on the Future of PR, Marketing, and Advertising*, 1-13. Reprint ed. Portfolio, 2014.

the likelihood of success of the growth hacking solution, growth hackers have to know where to find their target audience. Airbnb found a gold mine of potential customers on Craigslist. As Holiday notes, getting on the first page of *The New York Times* is never necessary.[49] If you find out that 5% of daily readers of this newspaper are in your target market, that's as much as 95% of waste. On the other hand, if you realize that 75% of daily readers of a very niche blog are in your target market, your impact will be maximized, and wasteful marketing coverage will be largely eliminated. Uber found out that tech geeks would make great early adopters of their ride-sharing service. They concluded that the best concentration of journalists in the tech stratosphere would be at the annual SXSW conference in Austin, TX. Every year, new incentives would be offered around the area, from free rides to the chance to travel in a Rolls-Royce Ghost or Tesla Model S.[50] This year, Uber delivered free breakfast tacos for attendees.[51] These stunts could be considered traditional outdoor marketing ideas, but they're not. By reaching the exactly right audience, Uber unlocked the publicity potential from this event and therefore maximized its return on investment.

The third step towards effective growth hacking is to go viral. According to Holiday, virality is no luck, and any piece of content can be designed to become viral.[52] Traditional marketers are trying to make existing content viral. Again, growth hackers are going further. Growth hacking marketers are creating content designed from the ground up to be wildly shared by a selected audience on carefully chosen mediums. For example, standard referral programs are known to be successful marketing tools. But referral programs that are built into the product become incredible growth hacking tools. Dropbox offered half a gigabyte of free storage for every invited friend who would sign up for their service, resulting in more than 2.8 million new invites per month.[53] As noted by Holiday, "there has to be a compelling reason for a community to take hold of it and pass it around."[54] In fact, this compelling reason to pass it around is the key to building a successful growth engine.

As we discussed before, poor communication was one of the seven major sources of waste within organizations. We mentioned that lean marketers should make the first step towards breaking the walls between departments, and better communicate with sales. Growth hackers stretch their duties beyond the traditional scope of marketing departments. Indeed, the fourth step in the growth hacker marketing loop is to retain existing users. More than

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49. Holiday, Ryan. "Finding Your Growth Hack." In *Growth Hacker Marketing: A Primer on the Future of PR, Marketing, and Advertising*, 15-29. Reprint ed. Portfolio, 2014.

50. "Saddle up – Uber's Back for #SXSW13!" Uber Blog. March 07, 2013. http://blog.uber.com/2013/03/07/sxsw13/.

51. "Breakfast Tacos On Demand!" Uber Blog. March 20, 2015. http://blog.uber.com/ConnectTacos.

52. Holiday, Ryan. "Turn 1 Into 2 And 2 Into 4—Going Viral." In *Growth Hacker Marketing: A Primer on the Future of PR, Marketing, and Advertising*, 31-41. Reprint ed. Portfolio, 2014.

53. Ibid., 40

54. Ibid.

generating leads, they make it a personal priority to make active users happy, and help them get the most from the product or service. Sometimes, a startup shouldn't focus on bringing more and more customers, but rather to keep their existing ones, and give them an appealing reason to use the service more often. The team of twenty growth hackers at Twitter understood just that and worked with developers to redesign the way users would be encouraged to follow other users on the micro-blogging platform.[55] As a result, users understood the utility of the social network and were given a compelling reason to come back on a daily basis.

Following these steps, marketers can unlock the power of growth hacking. The potential for growth is endless, as long as the marketer properly addressed all criteria.

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55. Holiday, Ryan. "Close the Loop: Retention and Optimization." In *Growth Hacker Marketing: A Primer on the Future of PR, Marketing, and Advertising*, 43-55. Reprint ed. Portfolio, 2014.

Findings

The extent of lean marketing is not yet clearly defined in the entrepreneurial sphere. In fact, it is unclear whether or not lean marketing is a synonym of growth hacking. To find the answer to this question, I e-mailed Sean Ellis, the one who first introduced the term of “growth hacking”. Ellis replied to my e-mail, “if I had to make up a definition [of lean marketing], it would probably be pretty close to growth hacking, which is just experiment driven marketing.”[56] However, my research shows that lean marketers and growth hacker have two distinct goals. On the first hand, according to Lowry, the ultimate goal of lean marketing “is perfection in the execution of the firm’s marketing activities.”[57] For sure, perfecting a company’s marketing activities goes a long way and requires a lot of fine-tuning. On the other hand, the eventual goal of growth hacking marketing goes even beyond. It is deeply rooted in the business’ growth on a specific market. As flawlessly as marketing activities are performed, a growth hacker is not satisfied until the growth engine is turned on. Moreover, growth hackers continue to refine the engine over time. Better still, they like to repeat the process again and again, as illustrated by the growth hacker marketing loop.[58]

I believe that lean marketing is a prerequisite for growth hacking. Growth hacking doesn’t start until marketing wastes are eliminated, financial and human resources are maximized, and actionable measurement tools are set up. Therefore, both concepts are very much linked with each other, although I consider growth hacking to be different than lean marketing for two reasons.

First, growth hacking is an extreme way to perform lean marketing. Not all lean marketers become growth hackers, and there is a good reason for that. Whether or not to activate the growth engine should carefully be determined by entrepreneurs and high-level executives. Although we have mainly discussed the extraordinary potential of growth hacking, it should be handled with extreme care. As for every powerful instrument, growth hacking can be a very dangerous tool. Just as fast as it could grow a startup, growth hacks might quickly backfire and permanently wreck a startup.

Second of all, growth hacking doesn’t apply to all companies. Sometimes, it isn't compatible with the industry in which they operate. For example, not all B2B marketers will find growth hacking to be an appropriate way to grow their business. Palantir Technologies, founded by legendary entrepreneur and investor Peter Thiel, specializes in the data analysis industry. Their main software, Prism, is primarily used by agencies part of the United States

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56. See Appendix D.

57. Lowry, James R. "A Primer for Lean Marketing." *Business Horizons* 46, no. 3 (2003): 41-48. https://hbr.org/product/primer-for-lean-marketing/BH091-PDF-ENG.

58. See Appendix C.

Intelligence Community, including the CIA.[59] Although Palantir is now worth more than $5 billion, growth hacking was certainly not the best way to get there.

These points prove that growth hacking strategies are not always applicable, although lean marketing doesn't know such disadvantages. Lean marketing can be applied to companies of all sizes, in any industries. Therefore, growth hacking is different than lean marketing and should be considered as a subset of the latter.

59. Gorman, Siobhan. "How Team of Geeks Cracked Spy Trade." The Wall Street Journal. September 4, 2009. http://www.wsj.com/articles/SB125200842406984303.

Conclusion

The lean movement was originally a breakthrough in manufacturing, but its core principles passed on to many industries—transforming them ever since. Quickly, marketers realized the potential of lean for their specialty, leading to our research question—what operational framework can be established by startups to best exploit lean marketing?

We discovered the four steps guide towards lean marketing, starting with the systematic removal of waste. Eliminating marketing waste was a prerequisite for the implementation of a lean marketing program. Applying the Pareto principle and mapping out the company's value stream were cited as impactful ways to identify and cut the most wasteful activities. Then, lean marketers needed to stretch limited resources, and get into the habit of doing more with less. By strategically outsourcing non-value added activities, startups dramatically increased productivity. After eliminating time-consuming activities, they unlocked the creative potential of their workforce. We noted that bootstrapped startups have no choice but to stretch their scarce budget, and some were extremely successful at it. Next, some of the issues arising from marketers' inability to calculate accurately ROI were mentioned. It gave rise to the revenue marketer, one who breaks the fence between marketing and sales, optimizing processes for a greater good. Through a well-defined process, the revenue marketer transforms marketing from a cost center to a revenue center for the enterprise. More than just better measuring ROI, the revenue marketer can reproduce, predict and scale every new marketing incentive. The last step, although optional, is an entirely new way to look at marketing. Growth hacking was defined as a combination of astute engineering and experiment-driven marketing. With the four-step growth hacker marketing loop, exponential growth could be engineered all the way for the development of the product to the entire satisfaction of its users. Last, the confusion concerning the extent of lean marketing, and its intersection with growth hacking was addressed. We noted that growth hacking was a subset of lean marketing. Most importantly, we presented some of the few dangers inherent to growth hacking, which marketers want to consider carefully before proceeding.

Lean marketing is a tremendous opportunity for companies of all sizes, and more especially for startups. It offers them a way to reach the right audience at a low-cost. It continuously improves the effectiveness of their marketing campaigns. More particularly, lean marketing brings hope to startups in need to get their word out, without the marketing budget of large multinationals. In a world where small businesses get crushed by giant conglomerates and struggle to survive, it is a significant opportunity for them to fight back and strive.

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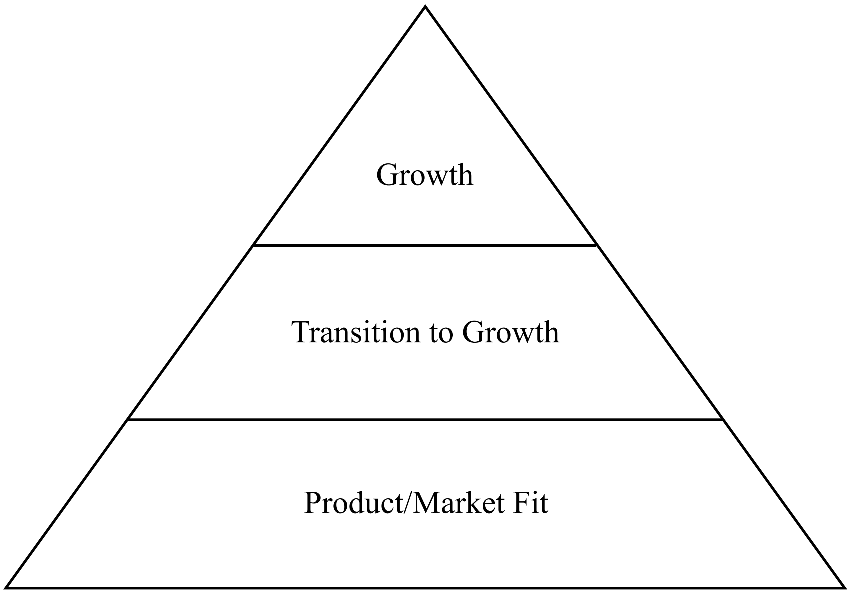
Appendices

Appendix A: The Startup Pyramid[60]



60. Ellis, Sean. "The Startup Pyramid." Startup Marketing. Accessed March 30, 2015. http://www.startup-marketing.com/the-startup-pyramid/.

Appendix B: Revenue Marketing Journey[61]

Step 1: Traditional	**Step 2: Lead Generation**	**Step 3: Demand Generation**	**Step 4: Revenue Marketing**
Cost Center - The MarCom Group - The "make it pretty" department - Marketing focused on brand building and impressions - No B2B lead generation - No alignment with sales	**Cost Center** - E-mail system - Tactical - One-off e-mails centered on generating leads - Focus on the cost of lead generation - Little alignment with sales	**Cost/Revenue Center** - Marketing automation + CRM - Strategic - Nurture MQLs/ SQLs/SALs/ Opportunities - Marketing funnel - Buyer journey - Full alignment with sales	**Revenue Center** - Systems are optimized - People and processes are optimized - Repeatable, predictable, scalable (RPS) revenue production - Synergy with sales
Metrics: Accountable for costs and activities	**Metrics:** Accountable for costs and number of leads	**Metrics:** Accountable for costs and revenue	**Metrics:** Accountable for ROI and forecasting revenue

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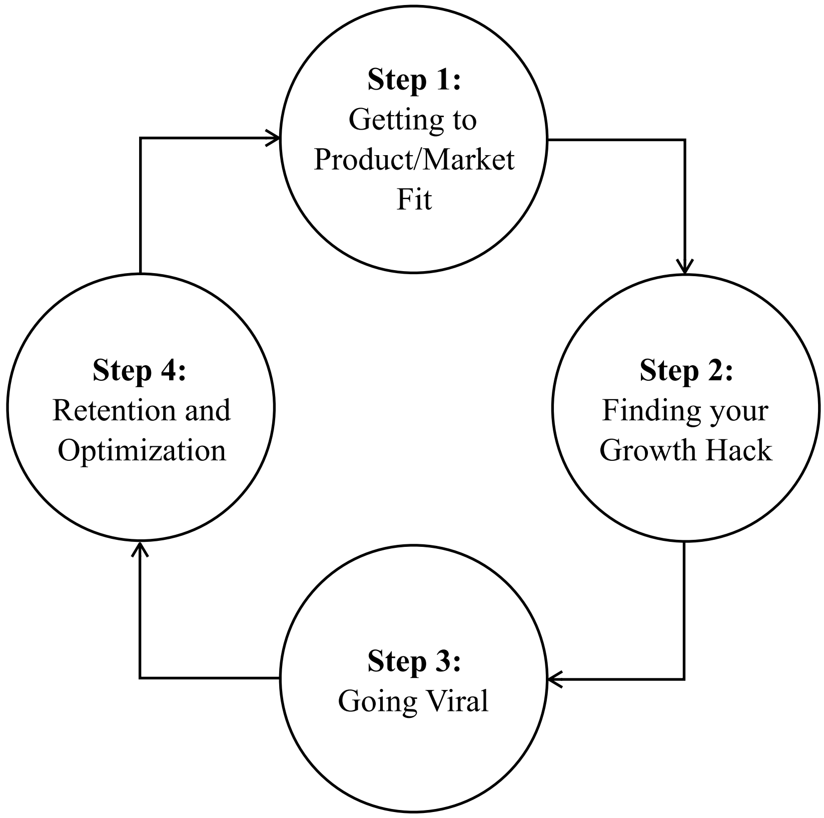
61. Qaqish, Debbie. "The Revenue Marketing Journey." In *Rise of the Revenue Marketer*. BookLogix, 2013.

Appendix C: The Growth Hacker Marketing Loop[62]



62. Holiday, Ryan. *Growth Hacker Marketing: A Primer on the Future of PR, Marketing, and Advertising*. Reprint ed. Portfolio, 2014.

Appendix D: Personal Communication with Sean Ellis[63]

From: **Sean Ellis** sellis@qualaroo.com
Subject: Re: Is Lean Marketing = Growth Hacking?
Date: March 31, 2015 at 5:40 AM
To: Nicolas Spehler nspehler@me.com

SE

I'm not really sure what lean marketing is. Someone who published a collection of my blog posts called it lean marketing. But if I had to make up a definition, it would probably be pretty close to growth hacking, which is just experiment driven marketing.

Sean

Sent from my iPhone

On Mar 30, 2015, at 6:51 PM, Nicolas Spehler <nspehler@me.com> wrote:

> Hello Sean,
>
> I am writing a research paper about lean marketing.
>
> Would you say that lean marketing equals growth hacking, or is growth hacking a subset of lean marketing?
>
> Your help would be invaluable.
>
> Thank you,
> Nicolas Spehler

63. Ellis, Sean. "Re: Is Lean Marketing = Growth Hacking?" E-mail message to author. March 31, 2015.