Lean Startup for Corporations

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In a Nutshell

How integrating lean start-up with Agile can help organizations and teams focus on delivering business outcomes rather than delivering backlog.
It all started 3 years ago, in a land far, far away.
The Office of National Statistics had a problem.
Quick Show of Hands!

If you were in the Steering Committee for this initiative.. What would you choose?

1. Continue delivering as per scope / schedule / budget
2. Stop the project – Business Outcomes already achieved
3. Revisit the scope of the initiative?
What if it was the other way around?

What if the project was on scope, on schedule, on budget but users still bounced off the website?

Would we have known, if we did not try to measure business outcomes?
Idea → Business Case → Charter / Solution → Approval Body → Business Initiative → IT Project → Agile Delivery

- Daily Scrum
- 2 weeks
- Sprint
- Potentially Shippable Product
Business Initiative

• Should it be built?
• Deliver Business Impact
• Risk of not achieving ROI

IT Project

• How can it be built?
• Delivering Backlog
• Risk of budget / Schedule overrun
Agile Manifesto - Principle #1

Our highest priority is to satisfy the customer through early and continuous delivery of valuable software.
Delivery of Software \neq Delivery of Value
Continuous & early feedback on delivery versus Backlog

Business Case

Set of Assumptions

Continuous & early feedback on business case assumptions

Missing Feedback Loop
What is Lean Startup?
What is a Startup?

A startup is a human institution designed to create a new product or service under conditions of extreme uncertainty.

Innovation, disruption, location, segment, business model...

Outline

Vision, of a lean startup

Steer, how to run it

Accelerate, how to make it more effective
Highlights

• Based on lean thinking/Management
  • People-centered, small batches, JIT, accelerated cycles

• Cross-functional teams measured on learning milestones: ‘Because startups often accidentally build things nobody wants, it doesn’t matter much if they do so on time and on budget’

• Figure out the right thing, as quickly as possible
Startups Have to Learn

• Learning what constitutes value to our customers
  • validated learning – are our strategic assumptions correct?
  • Usually, customers don’t know what they want in advance
• Anything built that is not absolutely necessary for learning what customers want must be eliminated
• Learning needs to be quantitative – and you also need to talk directly to customers
• You need to learn not only what happened (failure or success) - but also why!
• Split-tests as a key method
• The beauty of zero -> resist it! Set your coalition’s expectations
Vision - Experiment

• Common startup questions: which customers to listen to? How to prioritize features? What next? Will this anger our customers?...
  • Analysis vs. ‘Just Do It’

• Key insight: if you cannot fail, you cannot learn

• Scientific:

• What to test? Value Hypothesis & Growth Hypothesis
Minimize the total time through the loop
Everything is an Assumption

- Strategy is based on assumptions
  - *Leap-of-faith assumptions* -> seeing and validating
- Genchi Gembutsu – getting in direct contact with your customers lets you know what you need to test urgently
- Customer archetype is a working assumption
- The most rational, well-analyzed strategies go wrong if they are based on assumptions that turn out to be inaccurate – and avoid ‘success theater’!
Test Everything Quickly

- The fastest path to the B-M-L loop: MVP
- MVPs are for early adopters:
  - They don’t have to be perfect (in fact, that wouldn't make them MVPs)
- Range in complexity (test the assumptions in those Excel sheets!)
- Examples: videos, concierge MVP,…
- Quality is determined by real customers
- Risks: legal, competitive, branding, morale
Pivot

Of course, human judgment still has a place...

• Effective metrics -> faster pivots
• Failure is a pre-requisite for learning
• ‘Not only but also’ (data to identify a problem, customer conversations to understand what is behind it)
• Our runway is the number of pivots
• It might take months, and it might take years
• Pivots require courage – so schedule them
• Optimizing can mean you’re no longer innovating, be careful...
• Press on the accelerator
• Release in small batches
  • Requires continuous deployment and tooling
• Keep measuring
• Keep refining your hypotheses
Run Your Initiative As a Lean Startup
Let’s Agree on Terminology

Output

Software Features
Example: New Homepage - New mobile app
Example measure: Points, lines of code

Assumed Effect

Change in user or system behaviour as a result of released features
Example: Decreased bounce rate – change productivity

Assumed Business Outcome

Quantifiable Business Results
Example: Revenue – Market Share - # of homes with clean water
Business Case

Problem or Opportunity

Candidate Solution

A Set of Implicit Assumptions

Business Outcome

Leading Indicator
<table>
<thead>
<tr>
<th>Business Outcome</th>
<th>Leading Indicator</th>
</tr>
</thead>
<tbody>
<tr>
<td>Business Result (Market Share - Cost / Profit - Provide Jobs .. etc)</td>
<td>Measures user behaviour believed to be linked to the lagging benefit</td>
</tr>
<tr>
<td>Lagging - Hard to measure early</td>
<td>Leading - Measurable &amp; Actionable</td>
</tr>
<tr>
<td>Baseline and define target</td>
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Hypothesis

Articulate Hypothesis clearly
Prioritise Hypothesis: Riskiest? Highest Benefit? Likelihood x Benefit?
What is the fastest way to test your hypothesis? Design an MVP
For Each Hypothesis
Iterate

- Pick Priority Hypothesis
- Ideate
- Build MVP
- Measure Business Outcome
- Update Hypothesis Backlog
- Pivot / Persevere / Stop

Hypotheses Backlog

Accelerate?
Sample Business Case – Star Energy
About Star Energy

Star Energy is a state government owned corporation.

They are the largest energy distributor in their region. They build and operate a vast transmission and distribution network delivering electricity to their customers.

They have been in business for over 70 years.
Customer Damage Claims

Unplanned power outages often occur due to various reasons: Failure in equipment, accidents, storms, etc.

If the power outage causes damage to the customer, she can submit a damage claim and get paid for the amount of damage caused.

Damage claims are submitted online to be received by a team of claim officers to assess claim liability and decide to reject or accept & pay the claim.
Claims Assessment Flow

To assess the claims officer performs the following steps:

1. A claim is submitted online
2. Officer receives claim in the PLCM - Public Liability Claims Management System
3. Officer uploads any received attachments to the corporate document management system
4. Perform a series of manual checks:
   • Fraud checks: If claim is a fraud
   • Liability checks: Check if Star Energy is liable for the claim
   • Planned outages checks: Check if claim address / time are within a planned outage
   • Sensitivity checks: e.g. personal injuries & medical institutions are considered sensitive
5. Officer either approves or rejects claim. Officer submits result of his assessment to team lead for approval.
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The current process of handling claims led to a substantial backlog of unhandled claims accumulated and increasing. Backlogs have persisted despite Star Energy allocating extra short-term resources.

The claim life time extended in some cases to over a year. The backlogs frequently lead to complaints, including complaints to the Ombudsman and the Minister, undermining Star Energy’s reputation and brand with these key external stakeholders.

Star Energy received on average 75 claims per week. A back-of-the-envelope estimation of current cost per claim is ~$500. The current team has 2 permanent employees and was augmented by 3 contractors to help manage the claims backlog.

The corporate legacy claims management system (PLCM) was highly unstable. It consisted of an online static html form that submitted claims via email to officers and a backend system to manage claims. To make things worse, the primary and secondary experts in PLCM had left Star Energy. As a result, even relatively simple but not infrequent issues, such as being unable to log into PLCM, takes more than a day to resolve.
Proposed Solution (s)

- Build new online form to capture data needed for automation
- Build auto triaging engine to auto approve/reject simple claims
- Automate manual checks (fraud - liability – outages – sensitivity)
- Replace backend system with a new more usable claims management system
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<tr>
<td>H1</td>
<td>Automate Manual checks to reduce effort needed</td>
<td>Claims officers would be able to handle claims twice as quicker</td>
<td>- Saving of 400K / year - Higher customer satisfaction</td>
</tr>
<tr>
<td>H2</td>
<td>Replace Backend System to improve productivity</td>
<td>Claims officers would be able to handle claims 30% quicker</td>
<td>Saving of 260K / year Higher customer satisfaction</td>
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### MVP & Leading Metrics

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<th>Expected Change in Leading Metric</th>
<th>MVP to Test Hypothesis</th>
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| H1 Automate Manual Checks | Time of handling claim to reduce by 60% Rate of claim closure to increase from 2 to 5 claims per FTE per week | MVP 1:  
- Pre-calculate manual checks for 10 claims  
- Give claims with and without pre-calculations to two teams  
- Compare the time needed by both teams  
MVP 2 to 5:  
- Implement each manual step automation  
- Assess impact on closure rate after each MVP |
# MVP & Leading Metrics

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| **H2** Replace Backend System | Time of handling claim to reduce by 28%  
Rate of claim closure to increase from 5 to 7 claims per FTE per week | MVP 1:  
- Implement 20% of the claims management system  
- Assess closure rates |
## Results

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<th>Result</th>
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<td>H1 - Automate Manual Checks</td>
<td>Proved valid. Closure rate increased to close to 5 per FTE per week.</td>
</tr>
<tr>
<td>H2 - Replace Backend System</td>
<td>Proved invalid. Claims closure rate remained almost as 5 claims per FTE per week</td>
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And ..

Customer complaints increased 😞
Exercise
Context / Problem Statement
Articulate / Prioritise Hypotheses

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Re-imagine Program Management
• Program Management as managing a VC fund
• Initiatives as Startups
• Initiative owners as Entrepreneurs
• Budget based on outcomes not outputs
  • Incremental Investment
  • Initial investment based on hypothesis
  • Additional investment based on *validated* business outcomes
Governance

• Mandate of the Steering Committee needs to change
  • Focus on business outcome
  • Own Pivot / Persevere / Stop / Grow decisions
• Quick Decision Making – Feed the Beast
Contracting

- T&M or Fixed Capacity
- Imbed in the model in the contract
- Allow for decisions to stop based on:
  - Output delivery issues
  - Outcome not achieved
- Consider resource ramp down times in either stop cases
Q&A

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