

## Chapter 1

# Achieving Product-Market Fit with the Lean Product Process

*Product-market fit* is a wonderful term because it captures the essence of what it means to build a great product. The concept nicely encapsulates all the factors that are critical to achieving product success. Product-market fit is one of the most important Lean Startup ideas, and this playbook will show you how to achieve it.

Given the number of people who have written about product-market fit, you can find a range of interpretations. Real-world examples are a great way to help explain such concepts—throughout this book, I walk through many examples of products that did or didn't achieve product-market fit. But let's start out by clarifying what product-market fit means.

### WHAT IS PRODUCT-MARKET FIT?

As I mention in the introduction, Marc Andreessen coined the term *product-market fit* in a well-known blog post titled “The only thing that matters.” In that post he writes, “Product-market fit means being in a good market with a product that can satisfy that market.” My definition of product-market fit—which is consistent with his—is that you have built a product that creates significant customer value. This means that your product meets real customer needs and does so in a way that is better than the alternatives.

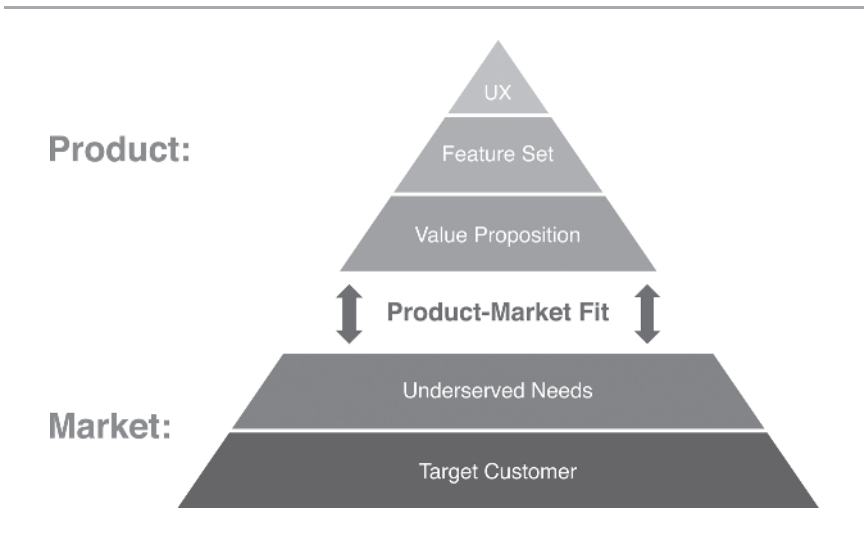
Some people interpret product-market fit much more broadly, going beyond the core definition to also include having a validated revenue model—that is, that you can successfully monetize your product. For others, product-market fit also includes having a cost-effective customer acquisition model. Such definitions basically equate product-market fit with having a profitable business. I believe using “product-market fit” as another way of saying “profitable”

glosses over the essential aspects of the idea, which can stand on its own.

In this book, I use the core definition above. In business, there is a distinction between *creating* value and *capturing* value. In order to capture value, you must first create it. To be clear, topics such as business model, customer acquisition, marketing, and pricing are critical to a successful business. Each is also worthy of its own book. This book touches on those subjects, and you can use the qualitative and quantitative techniques in it to improve those aspects of your business. In fact, Chapters 13 and 14 discuss how to optimize your business metrics, but the majority of this book focuses on the core definition of product-market fit and gives you a playbook for how to achieve it.

### THE PRODUCT-MARKET FIT PYRAMID

If you're trying to achieve product-market fit, a definition alone doesn't give you enough guidance. That's why I created an actionable framework called the Product-Market Fit Pyramid, shown in Figure 1.1. This hierarchical model decomposes product-market



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FIGURE 1.1 The Product-Market Fit Pyramid

into its five key components, each a layer of the pyramid. Your product is the top section, consisting of three layers. The market is the bottom section of the pyramid, consisting of two layers. Within the product and market sections, each layer depends on the layer immediately beneath it. Product-market fit lies between the top and bottom sections of the pyramid.

## **The Market**

Given the pyramid's hierarchy, let's start with the bottom section, which is the market. A market consists of all the existing and potential customers that share a particular customer need or set of related needs. For example, all the people in the United States who need to prepare their income taxes are in the U.S. tax preparation market. You can describe the size of a market by the total number of customers in the market or the total revenue generated by those customers. For either of those two measures, you can refer to the current size or the potential future size of the market.

Different customers within a market choose different solutions to meet their needs. For example, some customers in the tax preparation market may use a professional service such as H&R Block. Others may choose to prepare their taxes themselves, either by hand or by using software such as TurboTax.

Within a given market, you can analyze the market share of each competing product—that is, what percentage of the market each product has. For example, you could compare the smartphone market share of Apple versus Samsung. Or you could segment the smartphone market by operating system (iOS, Android, and so forth). Browsers are another example where the market shares of each different product are closely watched.

As you walk down the aisles of a supermarket, you see products in many different market categories: toothpaste, shampoo, laundry detergent, cereal, yogurt, and beer, to name a few. The life cycle stage of a market can vary. Many of the products you see—such as milk, eggs, and bread—are in relatively mature markets, with little innovation or change. That being said, new markets do emerge. For example, Febreze basically created its own market with a new product that eliminates odors from fabrics without washing them.

Prior to its launch, that market didn't exist. You also see active competition in many markets, with companies trying to gain market share through product innovation.

The Product-Market Fit Pyramid separates the market into its two distinct components: the target customers and their needs. The needs layer is above the target customers layer in the model because it's *their* needs that are relevant to achieving product-market fit.

As you try to create value for customers, you want to identify the specific needs that correspond to a good market opportunity. For example, you probably don't want to enter a market where customers are extremely happy with how the existing solutions meet their needs. When you develop a new product or improve an existing product, you want to address customer needs that aren't adequately met. That's why I use "underserved needs" as the label for this layer. Customers are going to judge your product in relation to the alternatives. So the relative degree to which your product meets their needs depends on the competitive landscape. Let's move now to the product section of the pyramid.

## Your Product

A product is a specific offering intended to meet a set of customer needs. From this definition, it's clear that the concept of product-market fit applies to *services* as well as products. The typical distinction between a product and service is that a product is a physical good while a service is intangible. However, with products delivered via the web and mobile devices, the distinction between product and service has been blurred, as indicated by the popular term *software as a service* (SaaS).

For software, the product itself is intangible code, often running on servers that the customer never sees. The real-world manifestation of software products that customers see and use is the user experience (UX), which is the top layer of the Product-Market Fit Pyramid. Beyond software, this is also true for any product with which the customer interacts. The UX is what brings a product's functionality to life for the user.

The functionality that a product provides consists of multiple features, each built to meet a customer need. Taken together, they

form the product's feature set, which is the layer just below the UX layer.

To decide which features to build, you need to identify the specific customer needs your product should address. In doing so, you want to determine how your product will be better than the others in the market. This is the essence of product strategy. The set of needs that you aspire to meet with your product forms your value proposition, which is the layer just below "feature set" in the Product-Market Fit Pyramid. Your value proposition is also the layer just above customer needs, and fundamentally determines how well the needs addressed by your product match up with the customer's.

Taken together, the three layers of value proposition, feature set, and UX define your product. As shown in Figure 1.1, your product and the market are separate sections of the Product-Market Fit Pyramid. Your goal in creating customer value is to make them fit nicely together.

### **Product-Market Fit**

Viewing product-market fit in light of this model, it is the measure of how well your product (the top three layers of the pyramid) satisfies the market (the bottom two layers of the pyramid). Your target customers determine how well your product fits their needs. Again, customers will judge your product's fit in relation to the other products in the market. To achieve product-market fit, your product should meet underserved needs better than the competition. Let's discuss a product that managed to do that.

### **QUICKEN: FROM #47 TO #1**

A great example of a product that achieved product-market fit while entering an already crowded market is Intuit's Quicken personal finance software. Scott Cook and Tom Proulx practiced Lean principles even though they founded Intuit years before Lean Startup ideas were put forth. When they launched Quicken, there were already 46 personal finance products in the market. However, after conducting customer research, the cofounders concluded that none of the existing products had achieved product-market fit.

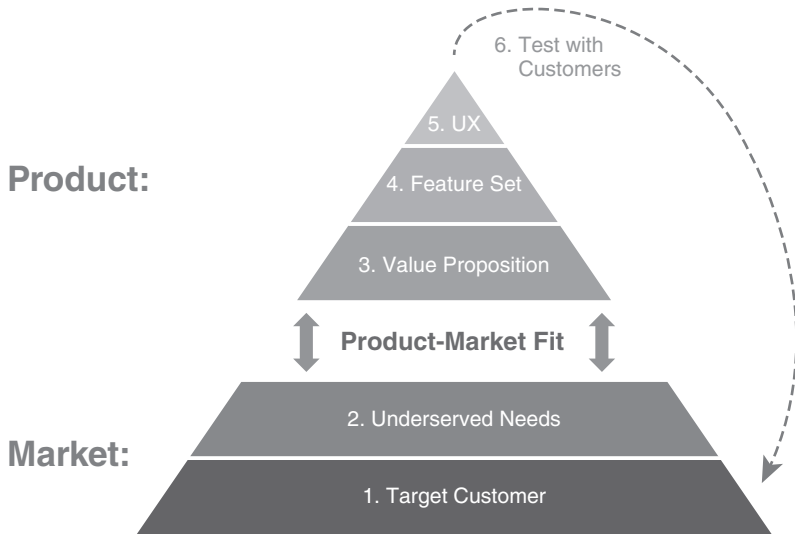
The products didn't meet customer needs and were difficult to use. The cofounders had a hypothesis that a checkbook-based design would do well, since everyone at the time was familiar with writing checks. Their hypothesis proved right: the UX they built using the checkbook conceptual design resonated with customers and Quicken rapidly became the leading personal finance software.

A large part of Quicken's success was the fact that Intuit adopted principles that would be called Lean today. The company pioneered the use of customer research and user testing to inform software development. They routinely conducted usability testing of each version before launching it and organized public betas years before those ideas became mainstream. They invented the "follow me home" concept, where Intuit employees would go to retail stores, wait for customers to buy a copy of Quicken, and then ask to follow them home to see how they used the software. This helped immensely in understanding the customer's initial impressions of the product.

Let's assess Quicken using the Product-Market Fit Pyramid. There were many customers in its market, and the product definitely addressed real customer needs: People needed help balancing their checkbook, tracking their balances, and seeing where their money was going. Computer software was well suited to help on that front, but despite 46 products in the market, customer needs were still underserved. By talking with customers, the cofounders ensured Quicken's feature set addressed those needs. Their design insights led to an innovative UX that customers found much easier to use. This dramatic improvement in ease of use was, in fact, the main differentiator in Quicken's value proposition. By achieving product-market fit, Quicken succeeded in the face of stiff competition, which led the founders to joke about having "47th mover advantage."

## THE LEAN PRODUCT PROCESS

Now that we have a detailed model for product-market fit, how do we go about achieving it? Based on my experience using the Product-Market Fit Pyramid with many teams on numerous products, I designed a simple, iterative process for achieving product-market fit. The Lean Product Process, shown in Figure 1.2, guides you through each layer of the pyramid from the bottom up.



**FIGURE 1.2** The Lean Product Process

It helps you articulate and test your key hypotheses for each of the five components of product-market fit.

I describe the six steps of the Lean Product Process in detail in Part II of this book, with a chapter devoted to each one:

1. Determine your target customers
2. Identify underserved customer needs
3. Define your value proposition
4. Specify your minimum viable product (MVP) feature set
5. Create your MVP prototype
6. Test your MVP with customers

The last three steps reference the important Lean concept of a minimum viable product (MVP). I discuss MVP in detail in Chapters 6 and 7, but it's basically the minimum amount of functionality that your target customer considers viable, that is, providing enough value. When you are building a new product, you want to avoid building more than is required to test your hypotheses with customers. The term MVP clearly applies when you're building a completely

new version 1 product (v1 for short). In addition, the idea of an MVP makes sense if you are redesigning an existing product or building v2.

The Lean Product Process *also* applies when you are not building a whole product, such as when you add functionality to or improve an existing product. In those situations, you can think of the process steps applying to a “minimum viable feature” instead, if that’s clearer.

Step 5 also refers to your MVP *prototype*. I intentionally use this broad term to capture the wide range of product-related artifacts you can test with customers. While the first “prototype” you test *could* be your live product, you can gain faster learning with fewer resources by testing your hypotheses *before* you build your product.

Not all six steps are required for every product or feature. Certain steps are required only when you’re building a completely new product. Take, for example, determining your target customers, identifying underserved needs, and defining your value proposition. Once you’ve successfully completed those steps for your product, you may not need to revisit those areas for a while. But after launching your v1 product, you would continue to improve and add functionality by looping through the three remaining steps: specifying which features to pursue, creating the features, and testing the features with customers.

To increase your chances of achieving product-market fit, the process is designed to encourage a certain amount of rigor in product thinking. In a sense, the process is a checklist to help make sure you’ve thought about the key assumptions and decisions to be made when creating a product. If you are not making these assumptions or decisions explicitly, then you are making them implicitly. The Lean Product Process helps you articulate the assumptions and hypotheses in your head (which you can revise later as you iterate). If you skip these critical thinking steps, you leave important elements—such as target customer and product strategy—to chance.

A key concept in Lean manufacturing, which inspired Lean Startup, is the concept of *rework*: having to spend time fixing something that you did not build correctly the first time. Minimizing rework is a key tactic for eliminating waste. In addition to helping you achieve product-market fit, the Lean Product Process also enables you to do so more quickly by reducing rework.



To be clear, you *will* have some rework with the Lean Product Process. It is an iterative process that requires you to revise your hypotheses, designs, and product as you make progress—all of which could be considered rework. The goal of the process is to achieve product-market fit as quickly as possible. Quick but rigorous thinking that avoids or reduces rework helps achieve that goal.

You can think of the Lean Product Process like the drills that karate students learn and practice as they make progress earning higher and higher belts. After mastering the core techniques from their drills and becoming black belts, students are able to mix, match, and modify what they have learned to create their own custom style. Martial arts master Bruce Lee eloquently said, “Obey the principles without being bound by them.” He also said, “Adapt what is useful, reject what is useless, and add what is specifically your own.” I encourage you to heed his advice as you read and practice the ideas and guidance in this book.

Along those lines, I would enjoy hearing any questions or feedback you have, as well as your experiences applying the ideas in this book. Please feel free to share them at the companion website for this book: <http://leanproductplaybook.com>. There, you can also see the latest information related to the book and contribute to the conversation about how to build great products.

Before jumping to the first step of the Lean Product Process, I discuss in the next chapter the important concept of problem space versus solution space. Understanding this fundamental idea will help clarify our thinking as we work our way up the Product-Market Fit Pyramid.

