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- White Paper -

Adapting Lean Thinking to Market Systems Development

Principles and Practices for Donors/Funders

Introduction

The purpose of this paper is to provide funders and implementers of market systems development (MSD) projects[1] with principles, practices, and structures that enables these projects to thrive. It is based on a book that has sold millions of copies worldwide, and a school of thought taught at institutions such as Harvard Business School and practiced in companies ranging from giants such as Toyota to the most successful tech start-ups in Silicon Valley. Published in 2011, Eric Ries wrote the Lean Startup as a remedy to the countless start-ups that create their own demises by getting started with the wrong goals, the wrong structures, and the wrong processes. He outlines an approach that enables the startup to navigate ambiguity and risk while using resources effectively. The conditions a MSD project faces are remarkably similar to those which a startup business faces; it needs structures and processes that are matched to the unpredictable, complex environment which it is attempting to influence. MSD projects can thus benefit from private-sector thought leadership on how start-ups can situate themselves for success.

This paper starts with an overview of lean thinking, a concept that derives from lean manufacturing which is widely accepted as the leading approach to modern manufacturing. It explains how Ries's Lean Startup adapts these principles, and then it in turn adapts these ideas for market systems development. The following three sections provide an overview of Lean Startup concepts, applying them to the development sector as appropriate. The final section summarizes and makes suggestions on next steps for funders who wish to set MSD projects up for success using a lean approach. Overall, the paper builds a case for how the Lean Startup's approach can enable MSD projects to work successfully in ambiguity and increase their potential for achieving robust and sustainable results, all while using donor resources more efficiently.

[1] While this paper is specifically tailored to market systems development, its principles will largely apply to projects in other sectors that are also taking a systemic approach to their work.

Principle 1: Lean Thinking Manages for Uncertainty

Lean thinking has its roots in the lean manufacturing movement first pioneered by Toyota, and is now viewed as the "gold standard" in manufacturing processes.

What is the significance of a manufacturing revolution for a startup? It starts with understanding Ries's definition of a startup: "a human institution designed to create a new product or service under conditions of extreme uncertainty."[2] While a startup can focus on providing customer value while reducing waste, it is difficult to determine what customers want in an environment of high uncertainty. This makes it easy to mistakenly engage in wasteful activities. The goal of the startup should therefore be to reduce that uncertainty as quickly as possible; the purpose is not to build products or make money right out of the gate, but rather to **learn** as fast as possible about what customers really want. Much like lean manufacturing, the startup needs to accelerate its cycle times in order to catch mistakes with minimal waste of money and human resources. In order to acquire and integrate learning as quickly as possible, it is critical that the startup be flexible. Contrary to manufacturing processes, uncertainty here cannot be "solved" by expertise; the startup operates in a complex system where outcomes cannot be reliably predicted in advance.

Lean manufacturing: an overview

Lean manufacturing reorganizes operations to improve process efficiency. Unless an action has a direct connection to creating value—defined as anything that provides benefit to the customer—it is waste. Production is aligned with customer pull: the company produces only what the customer wants, at the time it is wanted, while maintaining high quality. Counter-intuitively, it is faster to produce a small number of finished products at a time than to break the activity into high-volume individual processes. These faster cycle times make the "small batch" approach more efficient than traditional manufacturing, which uses intense, repetitive processes that are difficult to slow or change, magnifying the impact of mistakes and creating a disincentive for employees to identify and act on improvements.

Organizational culture is also paramount. Lean manufacturers must prioritize continuous improvement, acknowledging that there is always room to be better, and management must give all staff agency to identify, recommend, and act upon improvements. When taking a whole-systems perspective, to not capitalize on employees' potential to do great work and solve problems is another form of waste.

Lean thinking has also been applied to the service industry and the public sector, demonstrating the widespread transferability of its principles.

Despite this, most start-ups take the form of "traditional" companies: they focus efforts on coming up with a perfect strategy and a detailed plan for implementation; efficiency means that employees are putting in a sufficient number of hours to implement the plan as accurately as possible. Similar to machines that produce the same parts all day long, this disables the company from stopping and fixing mistakes, which in this case are erroneous assumptions about what customers want and are willing to pay for. Start-ups should not invest heavily before validating these hypotheses.[3]
What happens when start-ups do not pursue lean thinking or a small batch mentality? The potential to irreversibly fail is much higher. Many start-ups enter the "large batch death spiral": they pour more and

[2] Ries, Eric. The Lean Startup: How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses. New York: Crown Business, 2011; page 39.
[3] Lean Startup, page 207.

more time and money into releasing the perfect product or service, only to find out they built something that no one wants or needs, and *all* the work was a waste.[4] Similar to heavy machinery designed to perform one calibrated function at high efficiency, when a business invests heavily in a single course of action, it becomes tied to its implementation, making change difficult and costly. For the startup, this can amount to "achieving failure: successfully executing a plan that leads nowhere."[5] This plan may be intricate and brilliant, and executed with discipline, without resulting in a viable business. The Lean Start-up lays out the foundation upon which companies can escape this spiral, and set themselves on a more likely path to success.

How does this apply to the development sector?

A market systems development (MSD) project operates under similar conditions as a startup: it intends to bring about changes in a complex environment and lacks certainty about which actions will produce the intended results. It follows that a MSD project should also test assumptions and strategies, and gain validated learning that the project is on the path to creating change across a system, typically across a whole market sector.

Given that market systems are composed of a multitude of actors, each with their own goals and points of view, it is all the more apparent that the environment in which the project operates will be complex, unpredictable, and changing. It is therefore all the more important that the MSD project can respond to new information and trends in the system. Market studies and heavily detailed plans of implementation—think feasibility studies, logical frameworks, or extensive yearly work plans—are unable to provide perfect information about what the project should do throughout its lifespan; the project must validate its assumptions by engaging with the market, and consistently integrate observations of the market into determining its activities. By acknowledging this uncertainty, the project can set itself up with a small batch mentality to minimize the impact of mistakes and maximize its ability to respond to new information.

The Lean Start-Up shows that this early engagement can be more resource efficient than investing heavily in planning and launching full-scale implementation from the start, an important consideration when spending donor funds. To remain committed to a certain plan of implementation is to risk entering the same costly "death spiral": one can easily imagine a development project that discovers its interventions are not on the right track, but staff do not have the agency to recommend or implement changes, as accountability requirements make the plan too difficult to shift once implementation begins. Unlike a startup that depends on revenue, the MSD project will not die out when it makes wrong assumptions; instead it will continue to waste money on interventions that do not produce valuable results. The MSD project can apply Lean Startup methodology to similarly avoid implementing interventions that no one wants, or that do not contribute to improved functioning of the market system.

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[4] Lean Startup, page 218.

[5] Lean Startup, page 50.

Principle 2: The goal is to learn

The Lean Start-Up suggests that a business needs to redefine its purpose, and build its activities accordingly. The goal of learning needs to be at the heart of the business; specifically, the business needs to learn **if** and **how** the business can be sustainable. If a startup fails to integrate this goal into its core objectives, it leaves itself vastly more vulnerable to collapse. This is not to say that the business focuses on learning at the expense of achievement, but rather that it leverages learning to increase achievement, and to get there faster. The "perfect plan" is unable to account for the uncertainty of the system in which the startup operates; start-ups need to move faster from planning into gaining evidence-driven learning that is relevant to its mission.

Interaction with real customers is the way to validate market research and strategic planning, understand what customers truly want, and adapt the business to those realities as they emerge.[6] Note that Ries differentiates this real market interaction from customer trials and other forms of research—he explicitly advocates against simply "asking customers what they want," citing that human beings often don't know if they want something until it is actually being offered.

Because a major advantage of lean thinking, or small batch thinking, is to catch mistakes sooner, it follows that mistakes are inevitable. By admitting that things will go wrong, the company can shift to an approach that expects changes in course, thereby minimizing the damage of these mistakes. Lean thinking also acknowledges that a company will never have a perfect plan, or know everything upfront—new and better ways of doing things will always emerge, reflecting the core Toyota principle of continuous improvement. Learning must happen all the time, not just before the launch of the business, with the startup constantly reflecting on if its key strategic assumptions hold true.

To organize a startup around the goal of learning, the basic analytical framework Ries outlines is:

1. The startup begins with a *vision*, which is the ultimate destination or goal that unifies and guides all decisions;
2. The startup outlines a *strategy* designed to reach that vision, which includes "a business model, a product road map, a point of view about partners and competitors, and ideas about who the customer will be";
3. Based on that strategy, the startup will offer certain products or services, and will constantly "tune" or optimize these offerings in order to test, validate, and learn about the strategy (33).

This forms an analytical framework driven by well-informed hypotheses on how the business can succeed. Instead of a heavily detailed plan of implementation, strategy is defined as "a set of assumptions that need to be tested.[7] The process of learning about these assumptions involves

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[6] Lean Startup, page 76.

[7] Lean Startup, page 95.

constantly changing, optimizing, or "tuning" the products and services to see how customers respond, meaning that the purpose of products and services is to provide learning. Day-to-day activities will also change constantly; less frequently, tests will indicate that the strategy itself needs to be changed, but the vision maintains unity of purpose.

This process of testing strategy through small changes in product/service offerings is to launch a "pilot" of the business. Ries suggests that businesses launch with their "minimum viable product"—the most scaled down version of their product or service that will allow them to test their strategic assumptions—and then "tune" to improve on this initial offering based on customer response. The minimum viable product (MVP) could be anything from "smoke tests" such as an opportunity to sign up for a future product/service, to early prototypes of a physical product,[8] or a basic version of a service, and the MVP is typically offered to early adopters.[9] The idea is to start small, and build up the product or service based on how customers respond to the offering.

This is not to say that a business should plunge into the deep end without any thinking or strategizing beforehand, or that a startup cannot learn from past successes of other businesses. On the contrary, Ries says that examining strategies of other companies can help identify which assumptions have already been tested. For example, when Apple was designing the iPod, the Sony Walkman had already proven that people would be willing to listen to music in public with earphones, and Napster had already proven that people were willing to download music. It did not answer whether people would pay to download music.[10] But many companies fall into false analogies, which can broadly read like: "Previous technology X was used to win market Y because of attribute Z. We have a new technology X2 that will enable us to win market Y2 because we too have attribute Z."[11] The inability to identify the assumptions in such a statement is the downfall of many startups.

How does this apply to the development sector?

The MSD project also has a lot to learn both in its early stages when the plan is largely not yet validated, and throughout the project when observations point to new evidence on the strategy's validity, or new opportunities for engagement. MSD projects can similarly use the startup's analytical framework to manage the ongoing validation of its strategy and hypotheses, and to continually observe emerging trends in the market system.

The project's *vision* is its over-arching, high-level goals; the *strategy* is the theory of change for how those goals are to be achieved, which includes a point of view on the market system, a plan for who to target as entry points, and a roadmap (or in some cases, a results chain) that leads to the ultimate goals.

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[8] Lean Startup, page 112.

[9] This terminology is drawn from the "diffusion of innovations model." First articulated by E.M. Rogers in 1962, this model characterizes "early adopters" as "opinion leaders" who "embrace change opportunities." New ideas thus appeal to them easily with little persuasion required. See: http://sphweb.bumc.bu.edu/otlt/MPH-Modules/SB/SB721-Models/SB721-Models4.html

[10] Lean Startup, page 97.

[11] Lean Startup, page 95.

While the over-arching goals are unlikely to change throughout the life of a project, the strategy and theory of change are a set of assumptions that need to be tested by conducting activities and gauging how market actors respond. The activities must change based on that response, and in some cases, the strategy will also need to change. Some MSD projects are already using this analytical framework, but perhaps do not actively use observation and learning to redirect project strategy and activities.

To give an example of this framework, a MSD project's *vision* might ultimately aim to increase the use & availability of high-quality agro-inputs in a given geographical area. One *strategy* might be to catalyse a shift to customer-focused, growth-oriented business strategies in the agro-inputs distribution chain. The strategy is based on the assumption that if firms focus on solving farmers' problems and providing real value, instead of maximizing immediate profits by simply trading product, trust between the two parties will increase, and availability of reliable products and services will increase. [12] All parts of this strategy are assumptions that need to be tested by piloting different activities and seeing how market actors respond. If the momentum towards change is minimal after a certain period of time, then the strategy may need to be wholly or partly reconsidered, but not before trying many combinations of activities that are all based on this strategy, and generating learning about what works and why.

In the case of the MSD project, staff are of course working with key businesses, not paying customers. Project staff are bringing new business models, new opportunities, and other mutually beneficial ideas to the table. For the start-up, the true test of whether a customer finds value in the product or service is if they are willing to spend money on it; this information is not gleaned from research, product testing, or other indirect methods. Using the above example, the MSD project staff needs to engage businesses in testing out new business strategies to determine if the strategies are viable and desirable. Here, the true test of whether a market actor finds value in the intervention is based on whether the market actor adopts or continues the improvement in the absence of external intervention; this information does not come from studies or stakeholder consultations. The MSD project also needs to 'engage in the market' in order to ascertain if businesses will enact and sustain relevant changes.

Part of adopting learning as a key piece of strategy means that the MSD project is structured to **pilot** new activities. Typically, a MSD project outlines a trajectory of changes that build upon each other; again using the agro-inputs example, an agro-inputs firm may start by conducting a basic outreach or marketing activity. As the firm learns to conduct these activities with more sophistication, it will be able to better respond to farmers' needs—perhaps by segmenting customers to respond to diverse product and service interests, or by learning what information is demanded that the business can then obtain from its suppliers—but the first step is to convince the firm that it should try out an outreach or marketing activity.

[12] Various MSD projects have used, or currently use, strategies similar to the one outlined here, including Kenya Markets Trust's Market Assistance Programme (MAP), USAID Feed the Future Agricultural Inputs Activity, and PROFIT Zambia.

The process of a project staff member working with the business to try this initial event is the equivalent of the minimum viable product: a proposed business model improvement that benefits the market actor while contributing to the ultimate goals of the project. The offer is usually picked up by early adopters, those businesses which are looking to innovate and try something new. (Again, in this case, the early adopters are not customers but innovative businesses.) This initial offer is not intended to be the final action performed by the market actor; it is a test to see how businesses respond, and the offer evolves as staff members witness what businesses are interested in, and what changes are viable. The results of these tests indicate whether the theory of change holds true. As businesses respond positively to these offers, the project staff make decisions about catalysing more sophisticated business models and scaling out to other actors.

Again, this does not mean projects should dive in without thinking things through and learning from past experiences, but it does mean acknowledging that those experiences do not provide perfectly reliable information on what will happen now—the fact that a previous project may have failed to increase communication flows in the agro-inputs distribution chain does not mean that a current project should not attempt to do so, but perhaps must attempt to do so using a different strategy.

Projects must be careful to distinguish what conditions are similar, which ones are unknown in the current environment, and which assumptions must be tested that may not appear obvious at first. Similarly, this also does not mean that the project abandons market or feasibility studies altogether, but instead acknowledges that they will not provide perfect information, and that the project needs to shift faster towards learning-by-doing. Moving more quickly into piloting and testing hypotheses allows projects to get to scale faster, by more quickly determining if a certain course of action is in fact feasible or effective.

Principle 3: A different way of measuring progress

If a startup's goal is to learn, then the startup needs appropriate ways of measuring if it is achieving this goal. "Innovation accounting" is an approach that tracks the business' experiences with launching the MVP and "tuning" products or services along the way. The MVP's initial launch provides baseline data, and each incremental improvement is an experiment to test if the business moves closer to achieving its ultimate vision. These experiments provide the data that allows the business to learn if its strategic assumptions hold true.

Innovation accounting replaces gross sales as the method of evaluating startup success. Ries describes how metrics can be divided into two basic camps: "vanity metrics" and "actionable metrics." Since the goal is not to make money, gross sales are a poor indication of the health of the startup, acting only as a "vanity metric"—numbers that may look good in a chart, but provide only a static snapshot that says little about the business's growth trajectory.[13] A better gauge of long-term prospects are Ries' three

[13] Lean Startup, page 151.

"engines of growth," which describe a more relevant mechanism through which the business will grow. The test is whether the engine of growth's metrics are moving in the right direction as the business makes incremental changes through "tuning."[14] The three engines are:

1. Sticky: This engine relies on a high customer retention rate for growth; once the customer starts using the product or service, the business expects them to continue using it. An example could be an online information-sharing platform, which relies on people consistently sharing and engaging for the platform to take shape. Whereas advertising is useful for reaching a greater number of customers, businesses should instead focus on changing the product or service to get existing customers using it repeatedly, making depth more important than breadth. The *churn rate* represents the number of customers who do not return to the product or service, and if the customer acquisition rate exceeds the churn rate, then the business will grow. This is the metric the startup should monitor.
2. Viral: Businesses with a viral engine of growth succeed by achieving rapid and far-reaching spread of the product/service. A social network is the classic example. To facilitate the spread, many businesses do not charge and rely on indirect revenue such as advertising. The metric here is the *viral coefficient*, which measures how many new customers will use a product/service because of someone else who uses the product/service. If one out of every ten social network users recruits a friend to sign up, then the viral coefficient is 0.1. Businesses operating on a viral engine of growth should focus on increasing this coefficient to measure if they are on the right track.
3. Paid: Growth in this engine comes from increasing the revenue derived from each customer, or from driving down the cost of acquiring a new customer. The revenue per customer can increase by the customer being willing to pay more for higher value, or from buying a wider variety of things. In other words, the business wants to increase the difference between the cost of customer acquisition, and what the customer pays. This differential is the relevant metric to assess.[15] The corollary here is that such a business is continuously looking for new customers and it will pay to acquire them, often through advertising.

Engines of growth fall into the category of actionable metrics, as they allow the business to act based on the learning they provide.[16] During this process, Ries warns that gross sales may be small, as investors will instinctively look for these vanity metrics. It is important that the team and its investors understand the value of the numbers measured by the engine of growth.[17] Moreover, the baseline metrics set by the MVP will invariably look awful. But if the team is on the right track, the numbers will begin to move; if the strategy is misguided, the numbers will reflect that.[18]

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[14] Lean Startup, page 140.
[15] Lean Startup, pages 229-234.
[16] Lean Startup, 152.
[17] Lean Startup, page 67.
[18] Lean Startup, page 148.

Significance for the development sector:

Innovation accounting also offers solutions for a MSD project that is aiming to validate its hypotheses and measure progress in a more effective way.

When assessing systemic change at the project level, the development sector similarly must be careful to avoid using "vanity metrics" to gauge progress, and instead look for actionable metrics. Vanity metrics can be useful in keeping track of activities, but not in assessing change in a market system. Projects often mark progress by quantifying engagement with direct beneficiaries, when such numbers may not indicate movement towards systemic change. Does a business owner's attendance at a workshop indicate the value a business will provide to the poor? Does the number of activities in a quarter correlate with the scale of impact? How does a project know that when it stops directly promoting an activity, the business will continue to perform the activity? MSD projects themselves need better indicators of change that help the project decide if it is on the right path to achieving systemic market improvements.

Over time, the relevant actionable metrics will change, as the project moves from tracking early-stage indicators of change to tracking data that suggests systemic changes. The project has its equivalent MVP—the initial offer to businesses—that can provide baseline data. After this initial offer, a project can select early-stage behaviour change indicators that represent the first or second step in a hypothesized trajectory of change; often, these are found at the lower levels of the project's results chains. If a sub-outcome is for agro-inputs businesses to conduct sophisticated outreach and marketing activities by providing appropriate information, products, and services, the early stage-indicator could be that X number of firms conduct one initial and one improved follow-up outreach activity. This could indicate that businesses see the value in conducting such activities, and will continue improving the activities to better respond to customer needs over time. These early change indicators can serve an equivalent function to the engines of growth, by gauging whether the project should expect to see continued growth and success based on its current activities.[19] Over time, the project can look at broader trends in businesses' patterns of investment, how they make decisions, and how their business practices evolve to continue serving more customers better. Later on, the focus shifts towards the level and quality of crowding in that is occurring.

The numbers produced by the early-stage indicators can—and should—be small. It is important to focus on validating strategy and incorporating learning in the early stages, versus looking for output based around vanity metrics. Once assumptions have been satisfactorily tested, then the project can switch gears and look to scale up, at which point the numbers should increase accordingly.

Principle 4: Changing Directions

[19] Note that these indicators are only valuable in assessing early-stage progress, and do not capture impacts on the whole system, the scale of change, or indirect impacts, which are also important in market systems development.

Innovation accounting allows a startup team to make an informed decision about whether or not it needs to change strategic direction, or "pivot." When the business is not seeing its engine of growth metrics increasing, this is the sign to make a shift. Innovation accounting is thus designed to prevent the "negative spiral" into executing "a plan that does not make sense."[20] The business thus has the opportunity to make significant modifications to the plan before it launches full-scale.

When the company decides to pivot, it goes back to the first step of innovation accounting and starts all over again, with a new MVP, a new baseline, and new experiments to test a new set of assumptions. A successful pivot will see the engine of growth metrics increasing more than before.[21] Note that when this occurs, the vision remains the same, but the startup defines a new strategy for reaching that goal.

Ries provides a catalogue of pivot "types," which can guide the business in understanding how and why it should pivot. A customer segment pivot means that the product or service is valued, but not by the people the business originally intended to serve, so the business reorients itself towards providing value for different customers. A "zoom out" pivot happens when the business realizes its product or service needs to be one single component of a larger product or service for customers to find value in it. Sometimes, a business realizes that the problem it is solving is not that important to customers, but it discovers a different problem it can solve; this is a customer need pivot. Businesses can also pivot to using a new engine of growth, to using new technology to deliver their product or service, or to monetizing different parts of the product or service.[22]

Significance for the development sector:

If a project is set up with lean, small-batch principles, it will be in a position to pivot, and to do so before it commits time and resources to launching a full-scale plan that proves flawed. On the other hand, if a project pre-selects a particular business model and approach, and locks into those decisions right from the start, it becomes difficult to pivot, or even to simply adapt as new trends in the system emerge. Both the ability to change when it's clear things aren't working, or the incentive to innovate or try something new, will not be there if indicators and activities are already committed to one particular plan of action. This is the point where small batch thinking becomes critical, enabling projects to make necessary shifts and maintain effectiveness in achieving project goals. This ability to pivot is one major difference between the project that implements a brittle model that does not survive beyond the life of a project, and the project that flexibly responds to local needs for long-term results.

For a MSD project, the decision to pivot could serve either to correct mistakes in assumptions and strategy, or to capitalize on opportunities that the initial strategy did not identify. In the first case, the agro-inputs project might realize that agro-inputs retailers are not a suitable intervention point, and can pivot towards working with wholesalers and manufacturers—the rough equivalent of a customer

[20] Lean Startup, page 149.

[21] Lean Startup, page 140.

[22] For the complete list of pivot types, see pages 188-193 of the Lean Startup.

segment pivot. In the second case, the project might realize that suitability of financial services is a major barrier to agro-inputs businesses being able to stock products to the specifications demanded by customers. The project could add this intervention area and integrate it with existing strategy and activities as another type of action to pilot. Being able to change directions quickly and capitalize on new opportunities allows the project to respond to emergent processes. The system will always have some element of unpredictability, and this small-batch mentality that permits quick shifts in activities is central to the MSD project's ability to manage this uncertainty effectively.

Principle 5: Do it all with discipline

Ries repeatedly emphasizes that learning needs to be disciplined and consistent, or it will not serve its intended purpose. While the actual findings that a team comes across will be organic and unpredictable, the framework in which a team learns is rigorous and structured. If not, the organization will not be able to handle the pace of learning and change given the high level of uncertainty.[23] Learning is framed and directed towards action; learning does not simply exist for its own sake.

The primary tools of disciplined learning are the analytical framework and innovation accounting. Again, the vision holds the team accountable to a central, unchanging goal. The strategy is the collection of well-informed hypotheses on how to reach the goal. The team conducts various activities to execute the strategy, and monitors customer responses. Activities change when they do not move the growth metrics in the right direction. This is evaluated regularly, with a consistent set of metrics. Each change in activities (or "tuning") is an experiment, where the results can be observed in their effect on the engine of growth numbers. These metrics help the team manage the complexity of determining how to draw lessons from the abundance of data, focusing the startup on consistent metrics[24] that can point the team towards the next actions. In this way, learning is directly linked to decisions on how to act next.

It is important to note that flexibility and rigour are not in competition with each other. In fact, the purpose of the Lean Startup is to counter the "wild abandon" with which start-ups often operate in the absence of a clear framework,[25] and provide *more* rigour and structure. There is nothing less rigorous about small batches than large batches; if anything, small batches provide for more rigour against mistakes and wasted opportunities. Similarly, pivots do not occur randomly; they are specially structured, data-driven changes.[26] Without rigorous processes for learning, the startup will not be able to make use of its flexibility appropriately.

Significance for the Development Sector:

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[23] Lean Startup, 242.
[24] Lean Startup, 229.
[25] Lean Startup, 27.
[26] Lean Startup, 197.

The prime importance of rigour in learning means that learning cannot be an afterthought, nor can it take the place of other results. Learning drives the next set of actions, which in turn drives results that are in line with the realities of the market system. Piecemeal efforts to "bolt on" learning to existing organizational structures and processes are therefore insufficient, as this will not provide the structure and rigour needed to make good use of learning, and allow the team to make informed decisions on next steps. The same discipline must apply to changes or pivots. This requires consistently consulting available data, and ensuring that data comes from relevant, actionable metrics.

As such, the MSD project that is pursuing rigorous learning will not engage in haphazard activities that leave the project unaccountable, but will rather make well-reasoned shifts in direction that are backed up by evidence and observation.

Summary

There are a number of principles and practices here that MSD projects can integrate to work more effectively in complex market systems. Donors and funders can support or encourage these changes through two main channels. For one, requests for proposals (RFPs) can communicate expectations that reflect the lean approach, and include such expectations in how proposals are evaluated. For another, donors can encourage and reward these principles and practices through the ongoing donor-implementer relationship.

In summary, these principles and practices include:

1. **Learning is central to operating in a complex system**. Iterative learning and observation should guide activities and strategy throughout the life of the project, enabling the project to respond to changes and trends in the system and keep interventions relevant.
2. **Research/planning and implementation phases can be integrated**. MSD projects can switch from planning into action research and implementation faster, allowing strategy and activities to adjust to emergent findings. Rather than marking the end of research, the implementation phase is guided by continuous observational research. This means less secondary research and more observation that leads to action.
3. **Flexible, adaptive approaches to strategy and activities allow for pivots**, and pivots are often necessary for projects to respond to market realities. MSD projects should expect to pivot at some point, and should operate with small-batch thinking to easily enable these pivots.
4. **Flexibility does not come at the expense of accountability.** Flexible, adaptable approaches can exist within robust, disciplined analytical frameworks. Learning is structured towards making well-informed decisions on actions.

5. **Inclusive development is best measured with growth metrics,** versus vanity metrics such as gross sales. MSD projects can use the engines of growth to assess businesses' contributions to providing societal value and promoting inclusive growth.
6. **Systemic change also needs to be measured differently.** MSD projects must remember that their goal is not to help particular businesses succeed, but to see the overall system functioning better and providing more value to society. This means that early-stage monitoring will look different than later-stage monitoring.

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