

Phase 2: Development

Cycles and Making Stuff

Now that you've been through Phase 1, you've spent a lot of time validating your ideas. If you're ready for Phase 2, it means that your ideas are solid enough that you feel confident enough to actually start making stuff. This means that you're ready to take your idea from concept to an actual product or service.

At this point you may be thinking, "Don't I need to set up my company, get investors/donors, and all of that now?" Not only is this stuff unnecessary at this point, it's not even recommended. Get a real thing first, at least a prototypical version of it that people have tried, before you do anything crazy like starting a company. Build your idea before you build your company.

Building with Cycles

It's recommended that you not only build one version of your idea, but that you cycle through many versions of it. This gives you a chance to confidently demonstrate the quality of your idea based on real-world results. In fact, there are four aspects of your venture that you need to develop in cycles;

The Product – (Page 3)

This is the heart of your venture. Whatever product or service you're working on should be developed in its simplest working form. You'll learn just how to do that.

The Market – (Page 4)

Who you tell about your product, and how you tell them, matters as much as the product itself. Following these steps will help you focus on creating a simple, effective message targeting the right people.

The Impact – (Page 5)

Because yours is a social venture, the impact you're having is paramount. Starting your impact measurement from the start is going to keep you true to your mission and save you a lot of trouble down the road.

The Business Model – (Page 6)

Don't run out of money. Be smart enough to know your unit costs and plan accordingly. This will help you get the right startup capital and will keep the lights on while you move to profitability.

How to Cycle

Basically, as you build your idea, you'll have multiple chances to send it out into the world and see how it works. Each time it hits reality, evaluate the event according to the four areas listed above (and described more on the following pages). Plan ahead each time and write down everything you learn. Keep going until you have a venture to launch.

Some Guidelines

Here are some cycling guidelines to keep in mind:

Money. If you're wondering how you'll pay for all of this, then take comfort knowing that a lack of money will give you amazing clarity. If you find that you don't have any ideas how to start building your idea without a lot of money, then the odds are very good that you need to reevaluate. Working within constraints will force you to be more innovative. That's not to say you won't get money later, but the more of your idea you can build without money, the better.

Combine cycles. In most cases, you'll be evaluating two or more of the above aspects at once. The key is planning ahead. Before you ship your product out for evaluation, be sure that you're ready to learn what you need to learn.

Be a great listener. Everything you do in the coming cycles involves getting information, so be a great listener. Ask good questions. Be ready for harsh criticism.

Additional Requirements

To move on to Phase 3, you'll need to do the following:

1. Complete enough cycles of your venture to prove that you have an idea worth building a company on.
2. Recruit an advisor. The sooner you do this the better. An external observer can give you great ideas and feedback.
3. Meet with your navigator and review your results of your cycles. Don't wait to do this all at the end.

Extra Resources

Coming soon.

Product Cycle:

Back in Test #2, you asked people about the solution you have in mind, to understand how it might be useful to them. Now you need to design it and put it out into the world.

Ideal Version

The trick to early-stage products is design by reduction. The odds are good that your idea is imperfect. You might waste a lot of time developing aspects of your product or service that people simply don't want. Worse than that, you might distract, confuse, or discourage them if your product has too much going on.

Follow these steps to get to the essence of your idea:

1. Imagine what your ideal service or product will look like in ten years from now. How will it work? What will it include?
2. Make a list identifying every feature or aspect you've imagined. The sky is the limit, so include anything that will make it better. Just be specific. (For example, if you think you'll have a weekly newsletter, write that down.)
3. Now start crossing items off of the list. Cross-off anything that is not absolutely, fundamentally necessary for your product or service to work. Be honest with yourself as you do this. Don't avoid crossing off your pet ideas, the ones you're proud of but that aren't fundamental to your product or service.
4. Using a person you trust, hand him or her the list and ask for their feedback on your list.

This list of essential features is your new best friend. Anytime you consider a new feature, put it on the list and ask yourself if it should be crossed off. Anytime you are working on developing the product or service, ask yourself if you're working on one of the essential features. If you're not, get back to the essential.

The Cycle

As explained in the introduction to Phase 2, you're cycling through versions of your venture in this phase. As your cycle through your product, work from your list. Put out a version of it into the world and get feedback on what you've built. There are three possible outcomes from each cycle:

1. This version is **missing the core features** that people want and need. Figure out what's missing and add it for the next cycle.
2. This version has the **right core features, but they are poorly done**. Figure out how to improve the core features for the next cycle.
3. This version has the **right core features and they are well done**. Figure out which new features to add to the next cycle.

With every cycle of your product, use one of these three outcomes to help you decide where to go next.

Market Cycle:

You can have the best "whizbang" in the world, but if you offer it to the wrong people or to the right people in the wrong way, all you have is a "whizbang" that no one wants. Getting your market and marketing right will probably take some practice.

Who and How

Large companies with well established businesses will typically have extensive, detailed marketing plans involving intricate metrics and tiered strategies. For your venture, the first, most important things you need to establish about marketing your product or service comes down to two things: who will use it and how you will tell them about it.

"Who"s

Identifying your customers is not as simple as you might think. For example, the people who use your product or service may not be the same people who pay for it. In fact, because yours is a social venture "customer" might be the wrong word entirely. What you need to do, in essence, is to identify who will want your product or service.

1. With a column for each one, write down all of the categories of people who will want your product or service.
2. In each column, write down the attributes and demographics of the people in that category. For example, are they young or old? Are they all in a particular profession? Are they all people who are willing to try new things?

"How"s

Now that you have better identified your market groups, you need to identify how you'll talk to each of them about your product or service. As a rule of thumb, start personal and interactive.

1. For each category of person, choose your medium (i.e. cold calls, face-to-face, emails, mailings, referrals, and so on). Choose the best one for each category.
2. For each category, write down your message: one sentence describing what you're offering and one sentence explaining why they would want it. ("I'm offering a way to build an inexpensive prosthetic leg. This will help you better serve your amputee clients.")
3. For each category of person, plan a marketing approach based on the medium and message that you've chosen.

As you develop your marketing approach, focus on the person, the medium, and the message.

The Cycle

As you cycle through your marketing approach, there will be three possible outcomes:

1. You're talking with the **wrong people**. Reevaluate the categories of people in your columns.
2. You're talking with the **right people but communicating in the wrong way**. Either your medium or your message needs improvement.
3. You're talking with the **right people and communicating in the right way**. Good work.

With every cycle, evaluate how your marketing is working and make appropriate changes.

Impact Cycle:

None of what you do will matter if you don't make the change you hope to make. Too often, social entrepreneurs simply assume they're making a difference well before they ever get around to finding out if they're right. You won't make that same mistake if you test your impact from the beginning.

Know the Impact

Impact assessment is often hard, expensive, and time-consuming. You don't have the luxury of anything you do fitting that description, so it's important that the way you evaluate impact is simple and quick. This means some assumptions about long-term impact will be unavoidable.

The key to making sure your product or service makes a difference is to know how you compare to the world without it. If your idea doesn't make things any better than how they would've been otherwise, then you're not really improving things.

What to do before

Before a customer uses your product, this is what you need to know:

1. Define the impact do you hope to see. For example, if you're fitting people with prosthetic legs, you might want your impact to be more time they can spend on productive activities.
2. Specify the way you will measure that impact. You might ask the amputees wearing your legs to report how much more time they have to spend working.
3. Include a way to get information about unexpected positive or negative side-effects. You might simply ask open-ended questions like, "What's the worst thing about using the leg?"
4. Decide on a way to record your results. You will want this information for dozens of reasons down the road.

What to do after

Now that the customer has used your product, this is what you need to know:

1. Did you see the impact you'd hoped to see?
2. Did you see any unexpected positive impacts?
3. Did you see unexpected negative impacts?

The Cycle

Cycling through your impact measurement, you'll find three possible outcomes.

1. These were **not the results you wanted**, and might have also seen **negative side-effects**.
2. You saw **some of the results you wanted**, but you **also saw negative side-effects**.
3. You saw the **results you wanted**, even if they could be improved.

With every cycle of your product, make sure the impact you're hoping to see is moving in the right direction and that you have clear ways of measuring it. This early work on impact measurement will save you from untold problems later.

Business Model Cycle:

Imagine having an amazing product that people want, and it makes the world measurably better. Now imagine running out of money. The harsh reality is that if you don't have a clear understanding of your costs, running out of money is almost certainly the outcome.

Unit Economics

You need to know how much each unit of your venture costs, and if it's making money, how much each unit brings in. In the next phase, you'll get into the thick of pro forma financial statements and do this in earnest. Understanding your business model well will help you know your numbers are accurate.

Unit economics are a way to figure out your costs based on each core unit of activity. It might be a single prosthetic leg, a single school in your program, or a single nonprofit using your website. With each unit, you can estimate the expenses and revenue, if any, that you expect from each unit.

Define your unit

The unit you choose should reflect the core of your activity. It should be easy to distinguish one unit from another. The costs and revenue for each unit should be relatively easy to identify.

Calculate the costs

Now that you know your unit, identify the costs associated with each one. Remember that the costs will more more involved than just the cost of materials or the time paid to each staff member working during that time. Include things like rental fees, insurance, marketing, or any other costs necessary to that unit of activity.

Some of your costs might be fixed costs, the kind that you only spend once for multiple units of activity. At this point, leave fixed costs out of your calculation. We'll deal with them later when they will help you figure out how many units you need to be profitable.

Calculate the revenue

If you are selling your product or service, it should be easy to calculate the revenue you get from each unit. If you get zero revenue from each unit, perhaps because you plan to survive on fundraising, then at least you'll know the costs and how much ground you need to cover.

The Cycle

Cycling through your business model, you'll find three possible outcomes.

1. You still **don't know** your unit costs.
2. Your know your unit costs, but you **can't afford them**.
3. You **know your unit costs**, and **you can afford them**.

With every cycle of your product, make sure that the unit costs are trending toward profitability. The sooner, the better.