

Accelerating growth

Determinants of revenue growth in technology startups

Tor Berglund
Nicholas Peebo

Department of Production Management
Faculty of Engineering (LTH), Lund University

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In today's competitive market landscape, companies in an early phase with a business model that in the long term is expected to generate revenues from a global customer base, are facing increasing challenges to realise their growth targets (Mia and Clarke, 1999). In Sweden, 99.9 % of the combined 1.2 million companies are small and medium-sized enterprises (SME), defined as companies with less than 250 employees. 69% of the SMEs are concerned with how to grow their business. Not only do these companies emphasise the complexity of growth, they also display an urgency of why there is a need to address the issue.

Introduction and Background

The underlying reasons of the increased complexity of growth is rooted in the shifts in global megatrends on three levels - economical, technological and societal. These trends include the uprising of new economic superpowers, such as China (Pugatch, Torstensson & Chu, 2018). In addition, new demographic shifts, population growth and urbanisation will alter consumer behaviour, increase the collective purchasing power and bring more people into cities (Bughin, Manyika & Woetzel, 2016). Lastly, there have been several major shifts regarding consumers' relationships with technology, connected devices, and the Internet.

The implications of all economical, technological, and societal megatrends combined lead to the conclusion that businesses are facing new environments on multiple levels. This poses a particularly great challenge for businesses in the startup phase, as they do not yet possess any prior

knowledge of viable strategic options derived from earlier experiences in the marketplace.

The Study

The purpose of the thesis was to identify, analyse and describe the determinants for growth in technology startups in terms of their strategy, resources & capabilities, and value proposition. As the purpose is closely related to the outlining of casual relationships between different factors, an explanatory research strategy was implemented with an abductive approach. The analysis had a qualitative focus, which was well suited for the thesis given the nature of the interview formats. Three case studies were conducted in order to collect data for the research. For each case study, interviews with either the founder or co-founder of the company was conducted. All studied firms employed a B2B business model and varied in terms of size, maturity and characteristics of the product offered.

The studied firms in sequential order are Nordiska Entreprenadsystem, Eliq, and CellaVision.

To illustrate the different theoretical components used in this study, a theoretical framework, presented in Figure 1.1, was created. In this framework, both the internal factors (R&C), the interface through which they interact with customers (VP) as well as the strategic direction (Strategy), are assessed. The framework takes the form of a propeller through which the startup can accelerate growth (Kotter, 1996; Betz, 1998; Rangone, 1999)

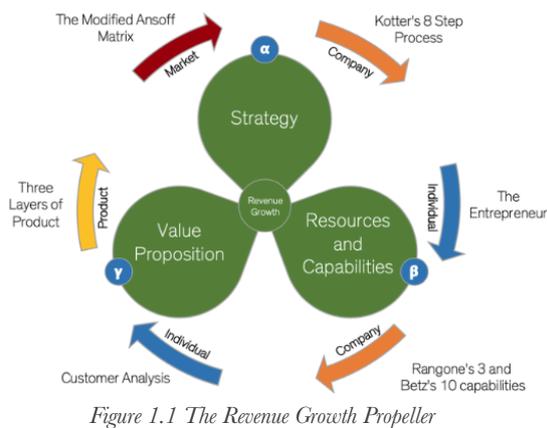


Figure 1.1 The Revenue Growth Propeller

Strategy

Across the three case companies, the choice of market entry has differed altogether and seems to be a result of the particular customer need and what solutions that currently exist to fill it - not an explicit declaration to pursue a specific strategy. To identify and determine the different market entry alternatives at hand for startups, the Modified Ansoff Matrix was created which is visualised in Figure 1.2 and 1.3 respectively (Ansoff, 1957; Porter, 1980; Blank, 2007).

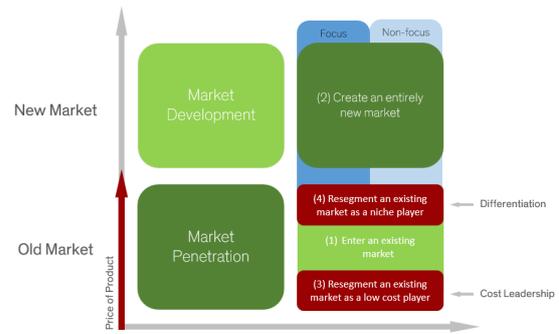


Figure 1.2 The Modified Ansoff Matrix

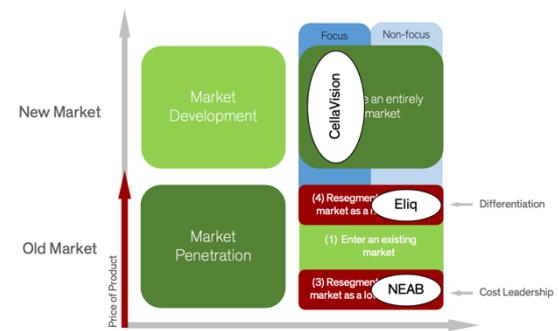


Figure 1.3 Market entry choices among the studied case companies

When analysing the selected companies in a context concerning strategy implementation there are both differences and similarities. First of all, it is evident that a guiding coalition is imperative for creating a startup fit for achieving growth - all studied firms had a competent, ambitious, and target-oriented group of people dedicated to turn the business ideas into reality. Almost as a consequence, a strategic vision and initiatives could be identified at all studied firms; these were in effect the outputs of the guiding coalition. However, a number of deviations were identified. The complacent attitude of Eliq in terms of their value proposition counteracted any sense of urgency, and no volunteer army was present to do the grunt work; this was carried out by the guiding coalition. Comparing NEAB and CellaVision, the only differences are CellaVision's lack of barrier-removal and short-term wins.

Resources and Capabilities

Throughout the case studies, all interviewees have returned to the significance of finding and retaining the right people. This is imperative, as the right people stand a higher chance of overcoming the obstacles that startups often face in their first years when the direction of the organisation may take sharp, irregular turns. In such turbulent times, there is also a risk, notably among novice entrepreneurs, to lose sight of the customer and market, which always should act as the guiding beacon for the startup. Regardless of market challenges, there is an undeniable need for entrepreneurs and the startup team to possess a stamina and motivation that comes from an inner drive to produce the best results and to be part of creating something great. Determination and perseverance as well as a drive to achieve were also distinguished traits among the studied entrepreneurs. For other characteristics common in entrepreneurs, please refer to Table 1.1 (Gartner, 1998).

Table 1.1 Gartner's list of 14 entrepreneurial characteristics

Characteristics	Description
1. Determination and perseverance	More than any other aspect, total dedication to success and focus on advantage can overcome obstacles and setbacks
2. Drive to achieve	Entrepreneurs are generally internally driven by a strong desire to compete and excel against self-imposed standards
3. Opportunity orientation	The constant awareness of opportunities that exist in the everyday life tend to be the entrepreneurs focus rather than resources, structure or strategy
4. Persistent problem solving	Successful entrepreneurs do not fear difficult situations. Rather, their self-confidence seem to make them believe that the impossible just takes a little longer
5. Seeking feedback	Entrepreneurs tend to desire constant feedback to know how well they are doing and become even quicker learners
6. Internal locus of control	The belief in oneself and the notion that the fate of the startup is within own control and influence are ubiquitous in successful entrepreneurs
7. Tolerance for ambiguity	The uncertain environment of startups means that the entrepreneur must be able to handle stress and cope with the lack of organisation and structure
8. Calculated risk taking	The ability to calculate risk in a precise way and do everything possible to get the odds in one's favour
9. Tolerance for failure	This implies that entrepreneurs regard failure as an opportunity to learn and not as a disappointment and emotional setback
10. High energy level	A heavy workload and stressful demands faced by entrepreneurs must be compensated by a high level of energy
11. Creativity and innovativeness	Creating value for customers often stem from an innovative and creative skill
12. Vision	Entrepreneurs know where they want to go and what the company should look like in the future even if this vision might not always be predetermined
13. Passion	Passion is a fundamental emotional experience for entrepreneurs and translates into a strong devotion to their work
14. Team-building	While often being strong individuals, successful entrepreneurs realise that they need to have qualified and well-motivated teams to help handle the new venture's survival and growth

Whereas the entrepreneur different traits are difficult to influence, the characteristics of other employees are indeed adjustable provided that they are picked on the basis of their competencies. Most favourably, these employees should complement the entrepreneur's weaknesses to make sure that the whole plethora of capabilities, imperative to growth, are present in the startup. What these capabilities are vary, although it is clear that Development of new products is the quintessence of a technology startup as it is present across all three companies.

Value Proposition

When comparing the core benefits, derived from Kotler's three levels of a product which is visualised in Figure 1.4 (Kotler & Armstrong, 2010), it is evident that for NEAB and CellaVision, the core benefit (and thus the WTP) is highly linked with tangible cost savings as resources can be freed with immediate effect. However, the core benefit of Eliq's product aspires to affect the top line for the client by reducing customer churn and attract new consumers.

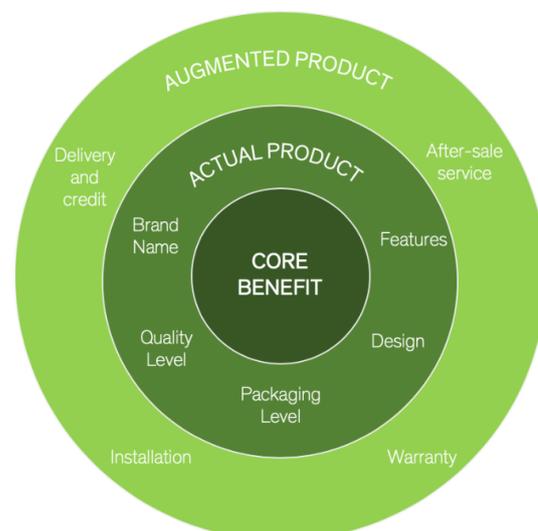


Figure 1.4 Three levels of a product

The associated ROI model guiding the sales process is by consequence more speculative, as consumer preferences and decisions are much harder to model and predict, than the workflow in highly controlled processes such as construction and cell analysis. This predicament could serve as a part of the explanation of why Eliq hasn't enjoyed the same rate of growth as the other two investigated firms.

The actual products for the studied firms are similar to a certain degree; all revolve around the provision of software that catalogues, presents, or analyses information. However, while NEAB and CellaVision provide additional software for analytics that is clearly discernible from the main product, Eliq's customisation of their white label software can potentially be viewed as their filler product, but only with a stretch. It can be argued that Eliq lacks a marketable filler feature, thus leaving money on the table for utilities interested in opting for a more premium service to provide to their consumers.

Conclusion

To begin with, a startup organisation is in many ways different from larger, professional organisations in terms of experience, size, and maturity; but also, in terms of bureaucracy, rigidity, and level of bias towards customers. However, the need for a guiding coalition is constant, regardless of the organisation is a small startup or a large multinational corporation (which Kotter's work is based upon). This coalition formulates, or provides input on, the strategic vision that is used to steer the startup in the competitive landscape. In terms of market entry choice, the one thing that matters most is to choose a specific strategy and

then patiently stick with it - minimising the risk of costly and timely strategy transformations.

Secondly, technology startups should put great emphasis on finding and retaining the right people in order to accelerate growth. The most important aspect when configuring teams is to have at least one person present with the ability to identify a strong unfulfilled need in a market or specific customer segment and have a conceptual idea of a feasible service or product that can serve that demand. In addition, there has to be a presence of innovative capabilities in order to translate that need into a product or service with enough innovative height to create difficult-to-imitate attributes. Moreover, a successful entrepreneur or creator of the business idea does not necessarily stand or fall with earlier experiences from the startup scene, although this thesis supports the conviction that such circumstances can facilitate the acquisition of resources and shorten the time to market.

Lastly, in order to be able to sell the product or service in question, the product-market fit must be adequate. To ensure that a product-market fit can be constructed, a sequential process should be adhered to which incorporates research of the target market, a segmentation with aspect to WTP, and the provision of a product that satisfies the chosen segments' preferences.

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