



---

# AN INTRODUCTION TO START-UPS

ALICIA K/BIDI - 26/02/2020 - KBIDIALICIAA@GMAIL.COM



---



# DEFINITION OF START-UP

Experts do not agree on the definition of start-up.

Discussions include size, years of existence, state of mind, growth, innovativeness, use of technology, control, impact on the decision-making process etc.

In this presentation we will consider a start-up to be:

- A project or a company...
- ... started by an entrepreneur
- ... to effectively develop and validate a scalable Business Model
- ... with a high degree of uncertainty

**IN EUROPE, WHAT ARE THE  
SECTORS IN WHICH MOST  
START-UPS ARE CREATED?**

- ▶ IT/SOFTWARE DEVELOPMENT: 19.1%
- ▶ SOFTWARE AS A SERVICE: 18.5%
- ▶ BIO-, NANO-, MEDICAL TECHNOLOGY: 6.5%
- ▶ INDUSTRIAL TECHNOLOGY, HARDWARE: 6.4%
- ▶ CONSULTING COMPANIES, AGENCIES: 5.9%

# HOW DO ENTREPRENEURS INITIALLY FINANCE THEIR START-UPS ?

- ▶ SAVINGS: 77.8%
- ▶ FAMILY & FRIENDS: 30.2%
- ▶ BUSINESS ANGELS: 29%
- ▶ VENTURE CAPITAL: 26.3%
- ▶ INCUBATOR, ACCELERATOR: 20.7%
- ▶ GOVERNMENT SUBSIDIES: 20%
- ▶ CROWDFUNDING: 18.1%
- ▶ OPERATIONAL CASHFLOW: 15.7%
- ▶ BANK LOANS: 7.4%

**WHAT ARE THE MOST IMPORTANT  
CHALLENGES FACED BY NEWLY  
CREATED BUSINESSES?**

- ▶ PROFITABILITY: 86.2%
- ▶ CASH-FLOW / LIQUIDITY: 72.3%
- ▶ SALES / CUSTOMER ACQUISITION: 55.9%
- ▶ REVENUE GROWTH: 50.8%
- ▶ PRODUCT DEVELOPMENT: 39.7%
- ▶ RAISING CAPITAL: 37.8%
- ▶ RECRUITING: 23.4%



**WHAT PERCENTAGE OF THE  
AMERICAN START-UPS CREATED  
SINCE 2014 HAVE FAILED?**

# OUT OF ALL START-UPS CREATED IN 2014 IN THE USA:

- 20% FAILED THE FIRST YEAR (2015)
- +10% THE SECOND YEAR (2016)
- +8% THE THIRD YEAR (2017)
- +6% THE FOURTH YEAR (2018)

44% OF ALL START-UPS FAILED WITHIN 5 YEARS  
~67% ARE EXPECTED TO FAIL WITHIN 10 YEARS

# FAILURE RATE PER INDUSTRY WORLDWIDE AFTER 4 YEARS OF OPERATIONS:

- 63%: INFORMATION (TECH)
- 55%: TRANSPORTATION, COMMUNICATION & UTILITIES
- 53%: RETAIL
- 53%: CONSTRUCTION
- 51%: MANUFACTURING
- 46%: WHOLESALE
- 45%: SERVICES
- 44%: AGRICULTURE
- 44%: EDUCATION & HEALTH
- 42%: FINANCE, INSURANCE & REAL ESTATE

# 615 UNICORNS IN THE WORLD :

A unicorn is a start-up company which market capitalisation is superior to US\$1B. The high valuation of these start-ups come from their ability to generate growth, while the valuation of established companies come from their past year's performances

## SHARE OF UNICORNS PER SECTOR:

- 23%: TECH & COMMUNICATION
- 17%: FINANCE
- 14%: TRANSPORTS & LOGISTICS
- 10%: E-COMMERCE
- 7%: HEALTH & PHARMACEUTICAL
- Etc.

 ByteDance



**stripe**



# WHY DO START-UPS USUALLY FAIL?



## LACK OF MARKET UNDERSTANDING - 44%

Including: product without business model (17%), mistimed product (13%) and ignoring customers (14%)



## LACK OF CONSUMER DEMAND - 42%

Needs are not created, they are identified and answered



## POOR MARKETING/UX - 31 %

Including: product's attributes (unfriendly product, 17%), pricing (14%)



## RUNNING OUT OF CASH - 29%

Create a viable and scalable Business Model. Spend intelligently



## WRONG TEAM/ ROLES - 23%

Responsibilities' overlap. Diversity. Companies with at least one female founder performed 60% better than all male ones\*. Mixed team with one hacker and one hustler have 2.9x more user growth



## LOSING TO COMPETITION - 19%

What sets you apart from your competitors?

# EXAMPLES X OF FAILED START-UPS



## Color Labs - Social Media



40 employees, US\$41M funding in cash, filed bankruptcy one year later while Instagram had 2 employees in 2009, raised US\$7M in 2011 after reaching 1M users and was sold to Facebook for US\$1B in 2012



## Jawbone - Wearables



Created in 1998. Started growing in 2007. Raised over US\$930M over its lifetime, liquidated its assets in 2017. Experts say over-funding killed the start-up by artificially increasing its valuation



## Beepi - Used car marketplace



Created in 2013, shut down in 2017. US\$149M in funding. Bad execution of the founder's vision and operation of the company. Wrong understanding of customers needs

# DEBUNKING SOME OF THE START-UP MYTHS





## ▶ Only the young can innovate

Average age of the successful entrepreneur: 45 y.o.  
In Europe, average age of start-up creators: 35 y.o.

## ▶ Entrepreneurs are born, not made

52% of Silicon Valley entrepreneurs were the first in their family to start a business

## ▶ The charismatic leader model

1.5 average number of founders in the USA  
2.7 average number of founders in Europe



## ▶ **Start-ups are all about competition**

79.5% of European start-ups cooperate with SMEs or Fortune 500 companies

## ▶ **Overnight Success**

Starbucks took 16 years to expand out of Seattle  
It took 20 years and many failed products for Steve Jobs to become a billionaire

## ▶ **Innovation needs to be disruptive**

Smartphone existed before the Iphone, couchsurfers existed before AirBnB, web search existed before Google



# NOTE ON DIGITAL DISRUPTION

- [Digital Disruption](#) vs. [incremental innovation](#)
- Ex: Kodak, Netflix and Wikipedia vs. light bulbs, razor blades, Iphone
- Most successful companies took concepts that already existed and did it better, avoiding:
  - Customer reluctance
  - Costs, increased marketing efforts
  - Lack of customer awareness
  - Unavailable information

**“It’s very easy to be different, but very difficult to be better.”**

Jonathan Ive, Apple design lead

# HOW TO GET A BUSINESS STARTED

- ▶ STEP 1: MARKET RESEARCH
- ▶ STEP 2: PAPERWORK
- ▶ STEP 3: BRAND IDENTITY
- ▶ STEP 4: BUSINESS PLAN
- ▶ STEP 5: FUNDING AND PRODUCTION

# STEP 1: MARKET RESEARCH

# START YOUR MARKET RESEARCH

## Definition and types

Market research consists in collecting information to understand if there is a need for your product and help develop your business plan

### Customer-related information:

- Exploratory research: focused on finding the problem(s), usually through open-ended interviews (qualitative research).  
Understand underlying reasons, opinions, and motivations
- Specific research: focused on diving in the problem(s) raised by exploratory research with smaller samples

### Market-related information:

- Industry, competition, target market, products & services and operations management
- Found from public, commercial or internal sources

---



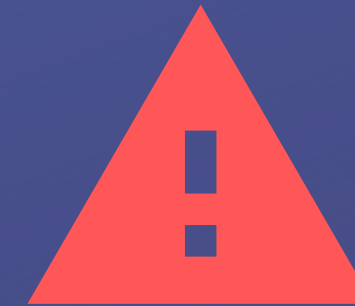
# **UNDERSTAND YOUR CUSTOMERS**





## ASK YOURSELF

- Who are my customers, who are my users?
- Who/what influences their purchasing decision?
- What is the problem/need I want to solve for them?
- Am I adding value to my customers' life?
- Are there enough people who are facing this issue?
- Would they pay to solve this issue?
- How much would my customers be ready to pay?



### DON'T

- "My users = My customers"
- "My customers are all identical"
- "If my product is good, someone will buy it"



### DO

- Research
- If you do not know, ask someone who does
- Think of ways to create value and connection with your customers

# THE DECISION MAKING PROCESS OF CUSTOMERS



---

# UNDERSTAND YOUR CUSTOMER NEEDS

## Definition

In marketing, a need is a user's desire for a product's or service's benefit

A functional need is a basic need rooted in logic

An emotional need appeals to the emotional connection to the product

A need becomes demand when combined with an ability to buy.

---



# THE IMPORTANCE OF EMOTIONAL BENEFITS



- ▶ **AMAZON PRIME**  
Fast delivery - Power and immediate gratification



- ▶ **NIKE**  
Apparel - Feeling of greatness



- ▶ **REDBULL**  
Energy drink - Feeling you can achieve the impossible

# THE FIVE TYPES OF NEEDS



**STATED NEEDS**



"i want a car"

"i want to buy meat"

**REAL NEEDS**



"i need a mean of transportation with low operating costs"

"i am planning a gathering at home"

**UNSTATED NEEDS**



"i want a good aftersale service"

"I am hoping to impress my guests"

**DELIGHT NEEDS**



"i want the car to include some gift"

"the butcher gave me the best pieces"

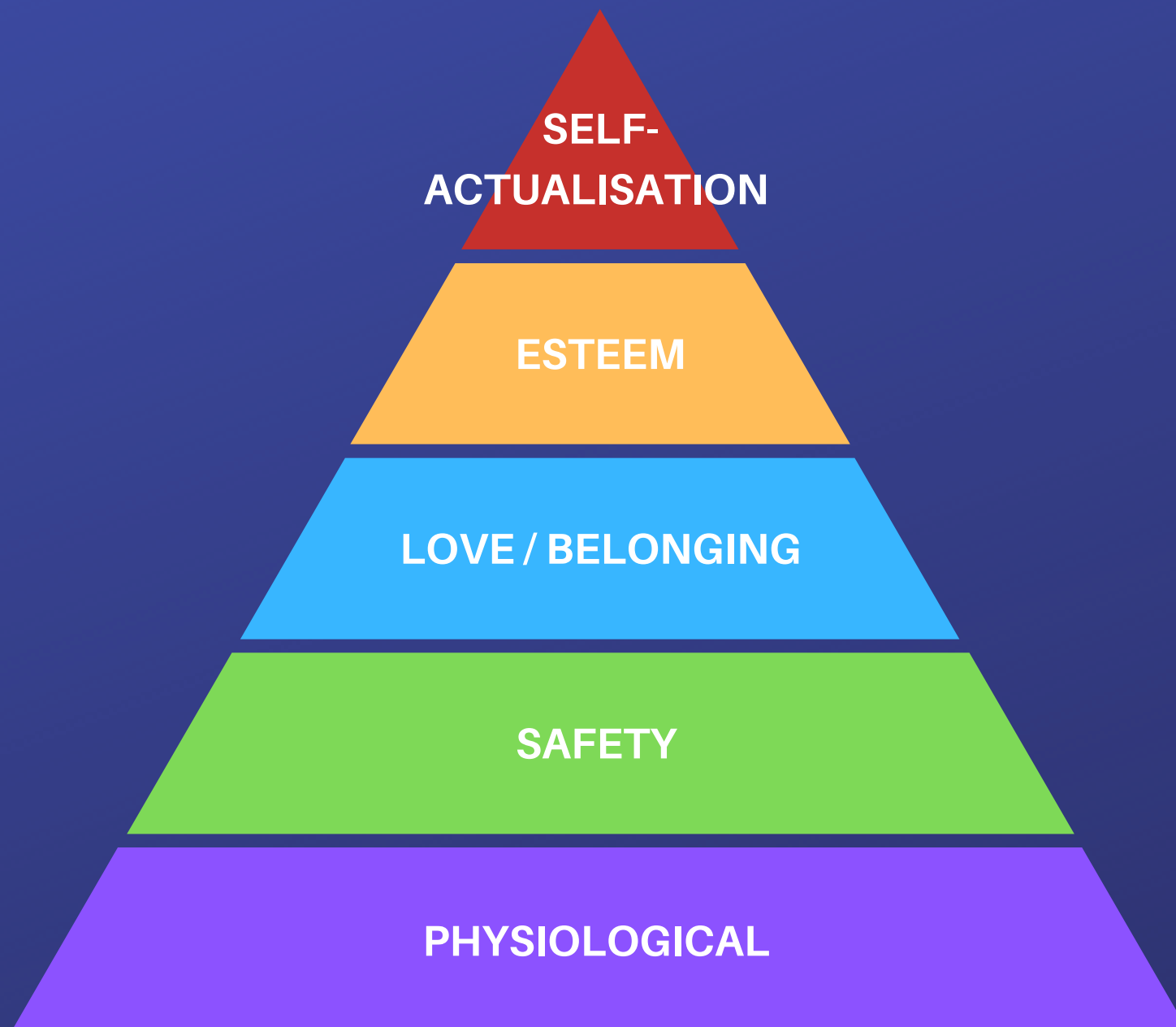
**SECRET NEEDS**



"i want the car as a status symbol"

"I have planned my event well"

# MASLOW'S PYRAMID OF NEEDS



## 1. SELF-ACTUALISATION

Personal growth and fulfillment: morality, creativity...  
Need to reach your full potential

## 2. ESTEEM

Status, Self-esteem, confidence, achievement, responsibility, reputation...  
Need to feel good with yourself

## 3. LOVE / BELONGING

Friendship, family, affection, relationships, work groups...

## 4. SAFETY

Security of body, employment, resources, family, health, property, protection, security, order, law, limits, stability...

## 5. PHYSIOLOGICAL NEEDS

Breathing, food, water, sex, sleep, shelter, warmth...

Abraham Maslow wanted to classify all needs humans aim to satisfy. He developed this controversial model in the 50s. Cognitive and aesthetics needs were added by other psychologists in the 70s, transcendence in the 90s.

---



# **UNDERSTAND YOUR MARKET**

## Find Your Competitive Position with a SWOT Analysis

A SWOT analysis is a strategic planning tool which helps specify the objectives of the business by identifying the internal and external factors that are favorable and unfavorable to achieving those objectives

### ► Strengths

What advantages does your company have? What do you do better than anyone else? What are your unique selling points?

### ► Weaknesses

What areas can you improve on? What does your company lack? What do your competitors do better than you?

### ► Opportunities

What changes in technology, policies, and social patterns can be a growth opportunity for the company?

### ► Threats

What are the obstacles to your company's growth? Who are your competitors? What changing factors can threaten your company's position?



## Analyse external factors with a PESTLE analysis

A PESTLE analysis is a framework to analyse the key factors influencing an organisation [from the outside](#). It offers insight into the macro-economic factors impacting an organisation (newly created or existing)

### ▶ Political

Government policy, political stability, bureaucracy, corruption, foreign trade policy, funding grants & initiatives, etc.

### ▶ Technological

Infrastructure, consumer access to technology, competitor technology and development, emerging technologies, automation, research and innovation, technology incentives, etc.

### ▶ Legal

laws on: discrimination, antitrust, employment, consumer protection, copyright, patent, health and safety, tax policy, trade restrictions, environment etc.

### ▶ Economic

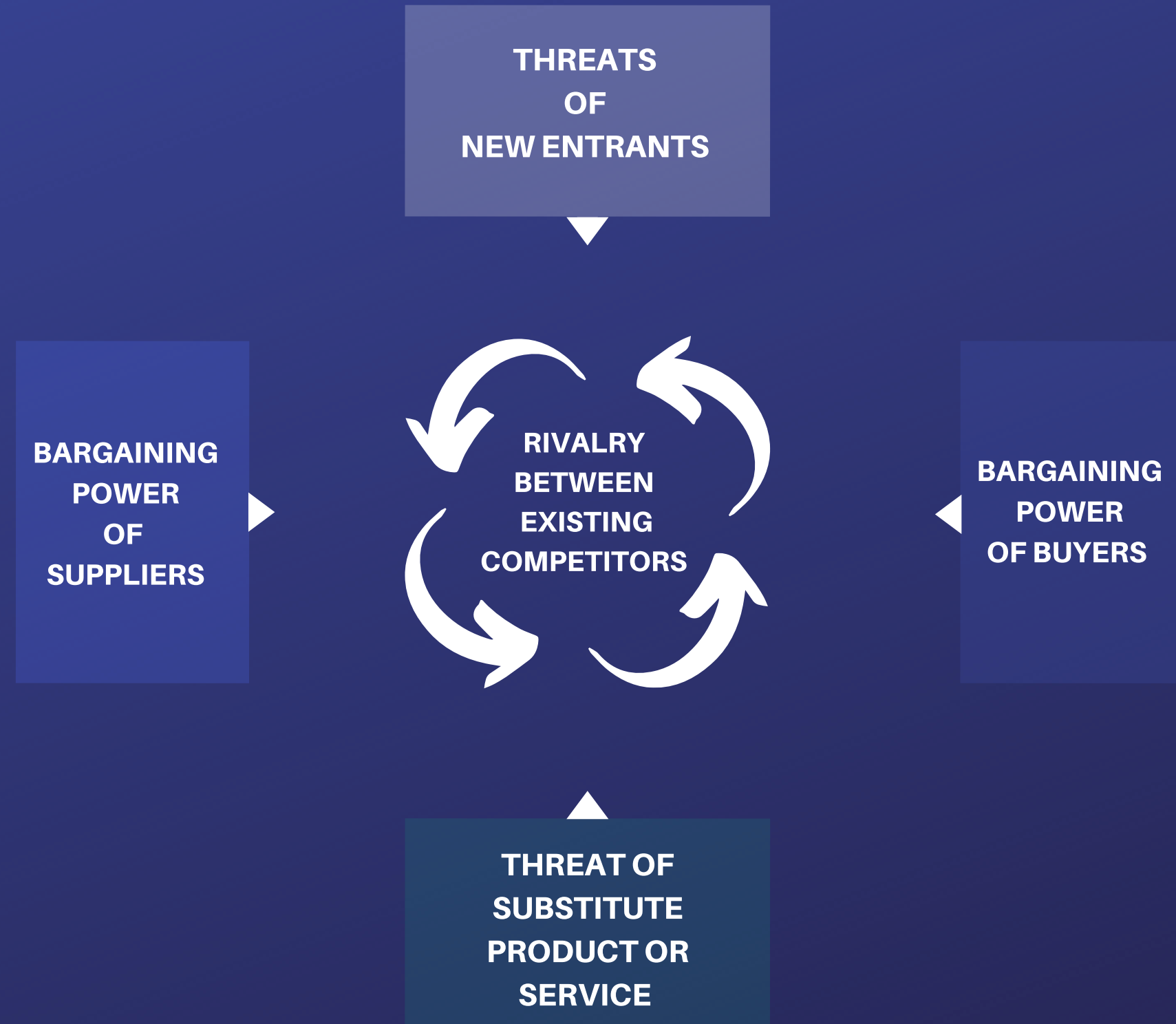
Economic trends, growth rates, industry growth, seasonal factors, international exchange rates, International trade, labor costs, consumer disposable income, unemployment rates, taxation, inflation, interest rates, availability of credit, monetary policies, raw material costs, etc.

### ▶ Social

Attitudes and shared beliefs: money, customer service, imports, religion, taboos, health, work, leisure, the environment; population growth and demographics, immigration/emigration, family size/structure, lifestyle trends, etc.

## Define your corporate strategy with the Porter's Five Forces analysis

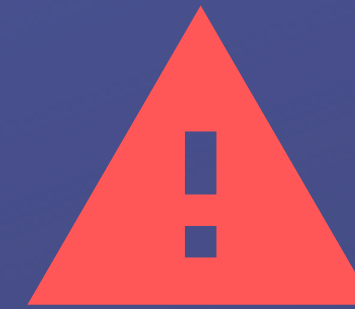
Porter's Five Forces model can be applied to any industry or segment of the economy to understand the [level of competition](#) within the industry and enhance a company's long-term profitability





## IMAGINE YOUR PRODUCT

- What are the main features of my product/ service?
- Are these features indispensable or optional for my customers?
- What is my value proposition?
- How does my initial customer and market research help me improve the product/service?



### DON'T

- Build a product or service before doing market research
- Assume no one had the same idea
- Add too many "nice to have feature"




### DO

- Get advice from specialised people from within the industry
- Talk to your customers
- Create a culture of feedback

---

# IMAGINE YOUR PRODUCT

## An example

- Define the purpose of the product/ service
  - Define the product's main attributes/ features
  - Build a prototype
  - If new, patent it
  - Start the user testing phase, iterate
  - Refine your product
  - Create a pricing strategy
  - Find potential buyers
  - Start production phase
  - Define distribution channels
  - Build a marketing Plan
- 
- 

---

**"WHATEVER IS WELL-  
CONCEIVED IS CLEARLY SAID"**

NICOLAS BOILEAU-DESPREAUX  
French poet and critic



# DEFINE YOUR VALUE PROPOSITION

## Definition

A value proposition refers to the value a company promises to deliver to customers should they choose to buy their product. A value proposition is also a declaration of intent or a statement that introduces a company's brand to consumers by telling them what the company stands for, how it operates, and why it deserves their business.

One way to start defining your value proposition could be to list your company's unique advantages



## **UBER: THE SMARTEST WAY TO GET AROUND**

Offering convenience while pointing out everything that is wrong with traditional taxis without explicitly saying it. Hassle-free, quick, affordable



## **IPHONE: THE EXPERIENCE IS THE PRODUCT**

Offering a unique experience, a unique design, easy of use. Apple is not selling a phone with different features, it is selling a different experience



## **SLACK: BE MORE PRODUCTIVE AT WORK WITH LESS EFFORT**

Offering a productivity app that can fit in any company's existing communication workflow. Promise of simplicity, finding everything in one place, anywhere, anytime, from any device. Value proposition backed by NASA Jet propulsion lab

---



# **THE BUSINESS MODEL CANVAS**



## Problem

What problems are people facing? List their top 3 frustrations

## Existing Alternatives

How are these problems solved today? This can be a direct competitor to what you are offering or the existing ways people are employing to address their problems

## Solution

How will you solve these problems?

## Key activities

List processes and tasks that must be completed in order for your customers to be served

## Key Resources

What resources are essential to deliver your service?

## Key Metrics

How will you measure the success of your product or service?

## Unique Value Proposition

Create a clear and compelling one sentence message explaining why your customers deserve your product

## High Level Concept

How does your product or service fit into the grand scheme of things? How do you get your idea across and make it spread? Create a one-liner message

## Unfair Advantage

What separates you from competitors?

## Customer Relationships

How will you interact with your customers?

## Channels

Through which channels will you interact with your customers? Direct marketing, social media, ads, partnerships, etc.

## Customer Segments

Categorise the people you can help. Visualise the characteristics of these people who will turn to you for solution

## Early Adopters

What are the specific characteristics of your early adopters?

## Key Partners

Who can I collaborate with to reach my target audience?

## Cost Structure

What are the fixed and variable costs to launch your product or service? Consider the cost at each stage from setting up a website, hiring employees, production, marketing, and bringing them to consumers

## Revenue Streams

What money sources will grow your money? How will you generate income? Show a pricing model of your product or service and include other revenue sources, such as sales and subscription fees

**Problem**

1

**Existing Alternatives**

2

**Solution**

2

**Key activities**

5

**Key Resources**

5

**Unique Value Proposition**

4

**High Level Concept**

3

**Unfair Advantages**

3

**Customer Relationships**

4

**Channels**

4

**Customer Segments**

1

**Early Adopters**

1

**Key Partners**

5

**Cost Structure**

6

**Revenue Streams**

6

# THE EXAMPLE OF WAZE



## Problem

People need to go from A to B but do not know the itinerary. They have a difficulty:

- Choosing the best route
- Knowing if something is going to impact their route
- Finding the cheapest petrol pump
- Avoiding policemen



Use: Need analysis  
Customer research

## Customer Segments

- Drivers (drive regularly) or travelers (drive occasionally) with a smartphone:
  - Casual users
  - Community users
- Advertisers

## Early Adopters

Drivers with a smartphone, willing to help others



Use: Need analysis  
Customer research

Use: 5 forces model  
Market analysis



## Existing Alternatives

- Google Maps (Google, also used for bike riders, public transportation, restaurants, shops etc.)
- iOS Maps (Apple)
- Here Maps (Nokia)
- Trapster
- Standalone GPS devices (Papago, Garmin, TomTom, decreasing)
- Cars integrated GPS (not always used but increasing)

## Solution

Develop a free mobile app with real-time updates that is based on a community of drivers/ travelers



Use: Need analysis  
Market Analysis



Use:

Need analysis  
Competitive analysis  
(SWOT & PESTLE)

## Unfair Advantages

- Best route anytime, anywhere
- Real-time update of road traffic with alerts thanks to crowd-sourcing
- Own users' map
- Community-based (vs. machine-based for G.Maps for example)
- ~~Police tracking option~~

## High Level Concept

"Crowd-sourced Google Maps with real-time updates"

## Unique Value Proposition

3 examples:

- "We save everyone time and gas money on their daily journey"
- "Outsmarting traffic, together"
- "Get the best route, every day, with real-time help from other drivers"



Use:

Unfair Advantages

## Customer Relationships

Community-based

(Other examples:

- transactional
- long-term
- personal assistance
- self-service
- automated service...)

## Channels

- Mobile app
- Website
- API
- Social Networks
- Forum

## Key Activities

- Development and maintenance of the platform
- Marketing
- Data creation
- Community engagement

## Key Resources

- Software
- Developers
- Algorithms
- IT infrastructure
- Active user base
- Community of users

## Key Metrics

- Nb of users (daily, monthly)
- Nb of contributors (daily, monthly)
- Nb of partners, revenue/ partner
- Advertising revenues (total, / partner)
- New customers' recruitment cost
- Net Promoter score, Churn rate
- etc.

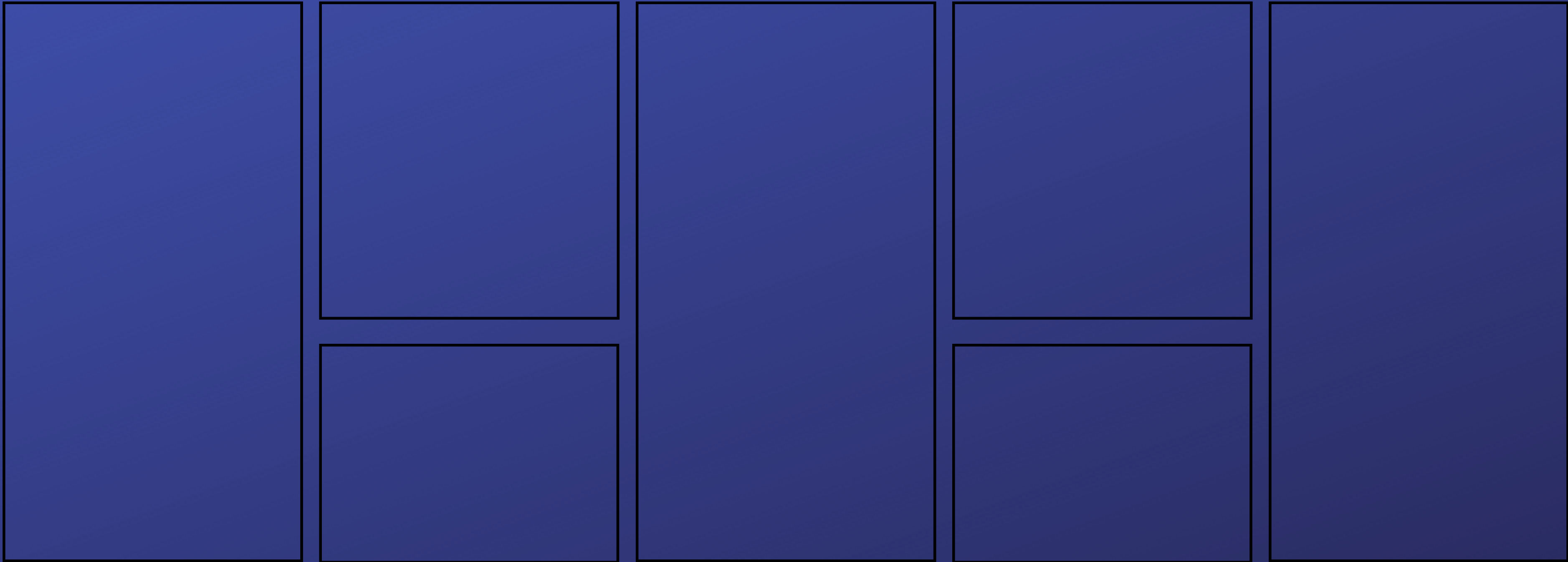
Use: Need analysis  
5 forces model  
Market analysis



## Key Partners

- Municipalities
- Advertisers
- Mobility solution providers
- Broadcasters (i.e.. TV broadcasting more accurate data on road traffic)





## Cost Structure

- Operations: platform and website creation and maintenance (employees facilities and equipment)
- Marketing: selling to advertisers and making the mobile app known (employees, campaign budget)
- Research and Development of software (employees, testing budget)

## Revenue Streams

- Corporate funding (Venture Capitalists)
- Location-based advertising (users share information about what they are doing in a certain area, at a certain time, that can be used to better tailor the ads that are sent to them. If ads are more relevant, there is more likelihood that customers will respond positively to them and buy/do what is advertised)
- Selling: 1- traffic and map data 2- users' location-based data to 3rd parties and competitors
- Growth opportunities: the market of drivers is massive: 1.2B vehicles in the world (2B estimated by 2035)

# STEP 4: BUSINESS PLAN

---

# WHAT IS A BUSINESS PLAN

## Definition

A solid and realistic business plan is the basis of a successful business. In the plan, you will outline realistic goals for your business, how your business can meet those goals and possible problems and solutions. The plan will figure out the need for the business through research and surveys; it will figure out the costs and inputs needed for the business; and it will outline strategies and time lines that should be implemented and met. Once you have the plan, you must follow it.

# HOW TO STRUCTURE A BUSINESS PLAN

## One example

- Executive summary
- Opportunity
  - Need, service or product
  - Target audience
  - Market & competition analysis
- Idea & execution
  - Marketing and sales plan
  - Operations
  - KPIs and timeline
- Company description
  - Management summary
  - Organisation
- Financial plan:
  - Projections 3-5 years: sales forecast, cash flow statement, income statement & balance sheet
  - Funding request
- Appendix

# **STEP 5: FUNDING AND PRODUCTION**

# SOURCES OF FINANCING

- ▶ Bootstrapping
  - ▶ Business Angels
  - ▶ Venture Capitalists
  - ▶ Incubator/ Accelerator
  - ▶ Government Subsidies
  - ▶ Crowdfunding
  - ▶ Bank Loan
  - ▶ Internal Financing
- 
- 

## ANGEL INVESTOR

- High net worth individuals willing to make an investment
- Investment in early stages
- Thousands of €/ \$ against a stake in the company
- Return on investment expected: 20-25%
- Acts as a mentor
- Ex: Jeff Bezos \$250,000 investment in Google in 1998

## VENTURE CAPITALIST

- Employees of venture capital firms
- Investment in growth stages
- Millions of €/ \$ against a stake in the company
- Return on investment expected: 25-35%
- Start-ups need to plan for an exit strategy when funded by VC
- Ex: Uber, Xiaomi, Airbnb

# NOTE ON BA & VC INVESTMENT

- BA and VC do not need to be repaid if the start-up fails, however:
  - Time-consuming, few businesses get funded
  - High risk, high expected return on investment
  - Company's ownership might be diluted
  - Pressure to deliver
  - Impact on the decision-making process
  - 75% of american companies financed by VC failed



**I need to find investors**



**I need to find clients**





## INCUBATOR

- Wide variety: VC firms, angel investors, government entities...
- Focused on innovation
- "Incubate" ideas
- Usually fee-based
- Open-ended timeline
- Sponsoring party determines vertical
- Co-working with other companies
- Refine idea, product-market fit, intellectual property, network
- Outcome: pitch to investors

## ACCELERATOR

- Focused on growing a business
- "Accelerate" the growth of existing start-ups or companies
- Usually growth-based (equity)
- Fixed period of time (weeks/months)
- Access to network of mentors and investors
- Application process: 1-2% success rate
- Outcome: demonstration day (demo day) with investors

# CROWDFUNDING

## Definition

Crowdfunding is a method of raising capital through the collective effort of friends, family, customers, and individual investors. This approach taps into the collective efforts of a large pool of individuals—primarily online via social media and crowdfunding platforms—and leverages their networks for greater reach and exposure

\$12.4M



\$20.3M



\$8.78M



---

# ONE EXAMPLE OF EU INITIATIVES

## Innovfin: EU Finance for innovators

EU programme supporting activities, which by their nature are riskier and harder to assess than traditional investments, and therefore often face difficulties in accessing finance. Projects need to be highly innovative and technologically/economically viable

Between 35 and 50% of the project's investment costs covered through BA, bank loans or the Pan-European VC fund(s)-of-Funds programmes

Examples: Qwant (FR, search engine, €25M), Biosurfit (PT, blood tests, €12M), Tofas (TU, €55M, car manufacturing)

# ADDITIONAL INFORMATION

# ITALIAN START-UP ECOSYSTEM

- ▶ **Profile:** 84.8% of founders are male, 76.4% hold a university degree, of which 21.2% hold a PhD (vs. EU avg. of 12.6%)
- ▶ **Numbers:** 208 scale-ups in Italy (vs. UK 2,217, FR 859, DE 649, SE 542, CH 317, SP 317, NL 277 etc.)
- ▶ **Sectors:** highest percentage of industrial technologies and hardware production start-ups (12.1% vs. EU avg. 6.4%), 21.2% in IT/software and 7.9% in biotech
- ▶ **Revenues:** least international start-ups in Europe with 81% of revenues generated domestically (vs. 62.4% EU avg.)
- ▶ **Investments:** €0.5B invested in scale-ups (+66% yoy) (vs. UK €11.6B (+48%), SE €10.1B (+494%), NL €4.2B (+500%), DE €4B (+18%), FR €3.6B (+71%))
- ▶ **Ecosystem:** Milan ranked 57 (-9), Rome 104 (-18) worldwide

---

ALICE BENTINCK, EF CO-FOUNDER

**STARTUPS ARE ALL ABOUT  
MANAGING LIMITED  
RESOURCES. BUT THIS  
DOESN'T REFER TO MONEY,  
IT REFERS TO TIME**

---

