2. Startups at glance

2.1. What is a startup company?

Before getting started, it is important to understand why are some companies considered to be high-growth potential startups and others not. A startup company is an entrepreneurial venture which is typically a newly emerged, fast-growing business that aims to meet a marketplace need by developing a viable business model around innovative product, service, process or a platform. A startup is usually a company such as a small business, a partnership or an organization designed to effectively develop and validate a scalable business model. Startup companies are normally operating with very limited resources to find repeatable and scalable business model to go global.

Startup companies can come in all forms and sizes. Mainly, some of the critical tasks are to build a co-founder team to secure key skills, know-how, financial resources, and other elements to conduct research on the target market. Typically, a startup will begin by building a first minimum viable product (MVP), a prototype, to validate, assess and develop the new ideas or business concepts. In addition, startups founders do research to deepen their understanding of the ideas, technologies or business concepts and their commercial potential. Startup founding team must be a group of innovators, always in search of new markets, product or service features and clients, to test and implement their ideas as quickly and cost-efficient as possible.

2.2. Main characteristics of a startup company

There are many growth and performance related indicators that help to distinguish if your business idea and the execution plan can be considered as founding the startup company. The most common characteristics of a startup company are the following:

- High growth potential – Your business idea is based on shaky hypothesis, but you have clearly indicated the need on the market and if the execution works out as intended, the product or service has impact on many potential customers. High growth is also potential is also related to quick implementation, meaning that the product or service can be launched quickly and brings massive traction at once.
- Scalability – Your business model is build up so that the product or service can be offered in many different markets at once. There might be some customizations in the customer accusation model (e.g. customer support, language, logistics, marketing activities), but in general the global market can be tackled at the same time with the same core product or service.

- High risk of failing – Your startup idea is unique or different/better than the competitive solutions on the market. This makes the implementation (making the customer to prefer your product or service instead of the competitive ones) uncertain and naturally quite risky. There are startup companies that are following the success stories of other companies (using the same business model, entering the same markets, having similar product or service features). In this case the traction takes longer but some risks connected with sales and marketing can be reduced as well.
- Lack of resources – Startup companies are always lacking the resources (mostly time and money) because their target market is large and the product development requires a lot of testing and re-deployment. The key is to find a correct balance between the development and implementation. Your ultimate goal is to reach the revenue phase as quickly and cost-efficient as possible.
- Lot of uncertainties in the business model – Many startups are providing unique services or product to the customers. That is the main reason why the business model (way of providing the solution and earning money) is not clearly defined in the beginning. You need to test your clients with various sets of business models to find out the one that fits the best. After finding the suitable model, scaling up is relatively easy.
- Learning by doing mentality – There is no complete guide that helps to build up a successful startup company (there are lot of good advice available though). Building the startup company is in constant change dictated by market conditions, investments, habits, development of technology etc. The most certain way of getting accurate feedback on your activities is to run real-life test with real-life customers and real products or services (or the prototype, MVP of the product or service).
- Client oriented approach – Client is the king because they help to validate your hypothesis, give you the valuable feedback, and eventually, pay you money for the product or service. Reaching your target customers can be a harsh process but it needs to be done as soon as possible. If you want to spare some time and money, face your clients even before your core team is happy with the MVP or prototype that has been built. Customers are willing to be part of the product development process and are really eager to give you valuable feedback.
- Different growth funding schemes – Reaching profitability with your startup business can be a road with very many sidetracks. To support the quick growth and fierce product development in a startup company, there is an option to use external money. This could be in the form of a loan, an investment, a grant, a crowdfunding solution etc. Main thing is to keep an eye on the financial resources and performance ratio and to find out as quickly as possible if additional resources will be needed. Raising capital can be a long process and starting at the right time can make all the differences.

- Importance of team/founders – The core team of a startup company is the biggest asset the company has. There are two things that are crucial to well-performing startup teams: mix of different professional skills that are needed to build the product or launch the service and the similarities in the expectations and working models of the team-members. As long as a startup company has not launched the product or service and has not reached the revenue phase, the value of the company can be only estimated by the performance of the team. This is the number one thing for external investors as well.

Main differences between a startup and SME

Setting up and developing a startup venture can be often very different than running a traditional small or medium sized enterprise (SME). The main differences can be indicated as follows:

- Growth and scalability.
  Startups are different from traditional businesses primarily because they are designed to grow fast. By design, this means that they have something they can sell to a very large market. For most businesses, this is not the case. This is also one of the reasons, most startups are tech startups. Online businesses can more easily reach a large market because people can buy from you or use your product regardless of whether you're awake or not and whether you're in London or New York. The distinctive feature of most startups is that they are not constrained by these factors. According to investor and angel entrepreneur Paul Graham, "that's the difference between Google and a barbershop. A barbershop doesn't scale." To grow rapidly, you need to make something you can sell to a very big market. Generally speaking, to operate a business, you don't need a big market. You just need a market and you need to be able to reach and serve all of those within your market.
- The relationship with funding.
  Apart from having different ways of thinking about growth, startups seek financial investment differently than most small businesses. Startups tend to rely on capital that comes via angel investors or venture capital firms, while small business operations may rely on loans and grants, solely on their own revenue stream. The interesting thing about venture capital is that those providing it, tend to have a more active role in whatever company they are backing. While a small business awarded a grant or loan may occasionally need to report back to their bank, a startup with angel backing will probably be getting a bit more help. They'll be receiving advice from the investor (after all, the investor is the one taking the biggest risk) and, if you're young and inexperienced, there's probably nothing better than a helping

hand. This is especially true for those teams or individuals that become a part of an accelerator or incubator program.

- Planning for the “end,” or the exit strategy.
  Another thing you’ll want to keep in mind is your vision for your business. If you’re pitching for investment without an exit strategy, you’re unlikely to get it. Investors usually need an exit strategy as they need to maximize their return of the investment. If you’d still like to be running the company in 10 years’ time, you’re probably going to want to ensure that exit plan comes in the form of a steady revenue stream that allows you to pay off investors. “Exit strategy” development is a problem you won’t have with your own business, at least not until you’ve made it big or until you change your mind about owning the business. The point is, in a traditional business (not a startup), you don’t need an exit strategy at the start. You’ll be entirely responsible for the future of your company and it will be down to you whether or not you run it for the rest of your life or decide to sell, merge or launch it on the stock market.

2.3. Am I likely to become a startup entrepreneur?

Taking into account the rise of startup incubators and accelerators, the availability of startup investments for early-stage companies, and the fact that big companies everywhere are buying startups instead of focusing on in-house innovation, you may want to consider launching a startup instead of a traditional business. Here are some signs a startup may be the right type of business for you:

- You like working hard, but also to move on.
  A lot of startup founders are called serial entrepreneurs – entrepreneurs who have founded many startup ventures. If you know you’ll get bored or want to see many of your ideas to become live, a startup may be a better approach. Naturally, this means you need staying power and the ability to work your butt off! For all you know, your startup is going to have a five-year lifespan, and it’s going to be down to you to make it work and to make it work fast. If that’s a problem for you, you might want to think twice about starting any type of business.
- Your product or service (or idea) has a huge market potential.
  In order to grow rapidly you’re going to need to “think big” or, as angel investor Paul Graham says, “to make something you can sell to a big market.” A really big market, ideally in the realm of millions. This is part of the reason tech startups are the most popular type of startup—it’s easy to reach millions on the internet, regardless of where they live or when they do business. A local cafe does not have this luxury.
- You like input and guidance from business experts.
  Incubators and accelerators are great for those that have never started a business

before, or perhaps who have never started a startup. If you're unsure about what to focus on or how to think about rapid growth, this might be a good place to get started. The same goes to mentors. There are plenty of people around who have done something slightly similar to you and who are willing to provide you their insights and experiences. If you are willing to use support like that, and you react according to the advice, it is likely you reach the success and avoid the mistakes that a lot of entrepreneurs have made before you. Working with advisors and mentors can be hard, but it pays off as long as you keep an open mind.

- You are an innovator.
  In the world of startup companies, the idea is everything, as is rapid innovation. Many companies today have stopped innovating internally and instead spend millions, sometimes billions acquiring startups that do it for them instead. This is why many startup founders launch with exit strategies that focus on a buy-out. If you like innovation and you are eager to test-drive many of your innovative ideas every now or then, you are likely to be a startup entrepreneur.
- You have a special skill.
  Successful startups are launched by teams, but it is important that each team-member (especially in the beginning) has a strong skill that helps to accomplish the goals of the company. Special skill also means that you have deep understanding on one or two subjects and you are ready to turn your knowledge into success of the startup. It doesn't really matter if you happen to be a geeky engineer or passionate CEO. As long as you convert this passion to the benefit of the company, it is likely to be a success.
- You love a certain amount of uncertainty.
  Building a startup company is often related to flexible working hours, unpredictable obstacles, emerging challenges and appearance of incredible obstacles. What founding a startup company definitely is not, is 8-hour workdays, fixed salary, solid bonus system, perks and good night sleep. So, you need to be prepared for that. If you like fixed route of the carrier and you have daily responsibilities that keep you from committing full time to the startup, it is definitely an obstacle. According to startup entrepreneur and investor, Ben Horowitz: "As a startup founder I slept like a baby. I woke up every two hours and cried."