Business Genesis

A Strategic Approach to Starting a Business

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StrategicVisions

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At their basic conceptual level, initial founding conditions are preeminent due to the persistence of their effects on organizations over time. Thus, it is suggested that the decisions made and conditions existing at the formative stages of an organization have lasting effects that imprint the firm, limit its strategic choices, and, most importantly, continue to impact its performance over its life. (Birley, 1986; Boyd, 1990; Eisenhardt & Schoonhoven, 1990; Pfeffer & Salancik, 1978)

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Preface

The *U.S. Small Business Administration, June 2006* reported 671,800 new business startups, and 544,800 business closures. And that 2/3s of new businesses survive for at least two years and 44% survive for at least four years. Although these data are not too alarming there was in the area of 127,000 businesses that had failed in some way; voluntary closure, bankruptcy, and so on. There are reasons businesses are not always successful, we have not focused on these reasons. We have set out to identify what entrepreneurs may do better to ensure the success of their new businesses.

Because a business didn't fail doesn't mean it was successful. Lots of work (various researchers) has gone into determining why businesses fail; we have focused on making them succeed. In the process, we have identified a foundation/planning gap that many entrepreneurs are unaware of. It has been identified by a number of researchers but has not (until now) been shown to entrepreneurs in a way that aids them in developing their businesses.

Entrepreneurs starting a new business for the first time have a 40% chance of surviving more than four years (above); but entrepreneurs who have succeeded in a prior venture have a 20% chance of succeeding in their next venture. First-time entrepreneurs have an 18% chance of succeeding!

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It is interesting that those who had failed before had a 20% chance of succeeding (Gompers, et. al. [(19)]); indicating that first time and experienced entrepreneurs have about an equal chance of success. Nevertheless, surviving is not success; only about 30% of surviving companies are generating continuous positive cash flow. This means that about 6% of entrepreneurial startups will survive for more than four years and be successful; we have defined success as being able to generate sustainable positive cash.

These data, modified (partitioned) by what we have called '*business categorization'* which we will describe and discussed in detail. We identify and described key 'initial-founding-conditions'; if created and set up, an entrepreneurial businesses has a much better chance for success. At the same time, we have built on the recognition (by other workers) that there are differing types of startup businesses.

We have farther refined other worker's findings, and created a categorization of five types of startup businesses. We have also identified how businesses may start in one category and morph into another. And we have described how a startup business may overlap a category; a situation that limits the strategic options available to the business.

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Business Categories

We outline optional strategies for each category of business (using category hopping as a strategy in some cases) and defined possible initial-founding-conditions for them. A number of researchers have identified differing types of startup businesses. We have defined five (5) different categories. One of the insights that we have provided is ‘by degree’ businesses; the new business is in (or partly) a category not targeted. Companies also often start in one category and morph into another, given time and circumstances. The largest group of startup businesses in the US is in what we have called category (1); i.e. ‘life-style’ businesses; started for a variety of personal reasons, profit being one.

Category (1) businesses are most often ‘me too’ in that they mimic other businesses; e.g. hair-dressers, grocers, bakers, consultants, and so forth. About 95% of all US startups fall into this category. In the chapters following, we show entrepreneurs how to determine their business category, and highlight strategic options available to them. Why should this be important? Well! He/she may be starting a business to present a new concept (a revolutionary idea) to its target market. This means the target market does not exist, and the target customer doesn’t know anything about the ‘whizzy’ new product. In general, products are not difficult to design and get to production, but developing new markets is difficult and expensive.

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At the Beginning

That doesn't mean that the entrepreneur shouldn't 'take it on' but it does modify the number of possible strategic options available; and he/she should think about the economic requirements and the risks involved. We discuss in detail the characteristics of each business category. Entrepreneurs start out driven by their passions, dreams, and visions of what they want their businesses to be. For them (in some ways) this can be the best part of their journey. There is nothing the same as launching a new life, a new business, with fresh exciting ideas and plans and dreams of what can result.

It in some ways it is similar to the expectant innocence and promise of a new baby being born into the world. Entrepreneurs need to demonstrate similar courageous naiveté when starting their businesses, or they can never get them off the ground. We are interested in this development phase of a new business, and have written considerably about in the chapters that follow. Few entrepreneurs have training in the art and science of creating and starting a new business (they're not all Babson Graduates).

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At the Beginning

Many entrepreneurs too focused on developing a product (or service) and looking for financing, don't realize there is more to defining and building a sustainable business than finding money. Products, services, and money are important but they are not the total answer to getting a business off the ground and launched on a successful trajectory. Presented in this book are methodologies for creating the necessary basis (the 'genes') of a new business. Few entrepreneurs are aware of this process; or of the 'how to' of the alignment needed during the startup phases to put a new business on the path to success.

Preface

The Fundamental Gap

The ‘Fundamental Gap’ is the period of time (at the beginning) when entrepreneurs should be planning their new business and taking actions to get it launched. The reason we call it the ‘Fundamental Gap’ is that at the beginning, before a business exists, entrepreneurs tend to make many blunders; some of which lead to a business underperforming, or even failing. Failure is one measure of performance, as is success; performance may take many shapes, depending on who defines its parameters, there is no doubt that unless a business lays its foundations it may experience significant problems as it grows.

It is during the period of the ‘gap’ that the entrepreneur should be setting the new business’s initial-founding-conditions. But many entrepreneurs start planning their new business using a discordant thought process: e.g., “I have a great idea that I know will get funded by Angels or VCs; I can start this business and exit from it with a lot of money?” During the height of the Internet Bubble, I was part of a startup business that conceived a product on paper (a neat idea); we spent the next 18 months trying to convince Angels and VCs to invest in a phantom business that existed only in its business plan. That business is no-more!

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The Fundamental Gap

The business faded into the night; it would have been much better off (and successful) if it had started up, and continued, as a life-style business. This example is typical of many High-Tech startups who intend to start as businesses backed with VC funds. Fewer than one percent of US startup businesses receive venture funding; the general rule in the venture investing community is that about a third of all startup businesses ever turn a profit. Another third of the startups limp along at a 'break-even' level, and the rest end up failing (only 6% become self sustaining). Setting initial-founding-conditions and executing to meet goals and objectives (part of these conditions), would do much to keep a startup business from being profitless, or failing, or becoming one of the 'living dead'.

Business Genesis

Starting a business is an adventure!

and an entrepreneur is an adventurer

An adventurer is a person who bases their lifestyle, or their fortunes on dangerous and risky acts. Starting a company is an adventure – a risky, dangerous, and uncertain activity that can have large positive (and negative) outcomes in status, wealth, and thrills.

The majority of startup businesses fail! Only 40% make it through three years, and only 6% make it to the point of generating a self-sustaining cash flow. New business entrepreneurs have a 94% chance of failing!

Starting a business is a dangerous business!

There are numerous reasons why so many companies fail. Fundamentally, they don't' start the right way! They typically write a business plan, focus on their product (and getting funded), using only their brand of common-sense! Many successful companies have started without a business plan.

*We have developed a process that gives startup companies a better chance for survival and success. When developing the processes for this book, we identified a 'gap' in the typical approaches to starting a business; we've called this anomaly '**The Foundation Gap**'.*

*In the book we outline and describe radically new business-building insights; **'Business Categories'**; and **'Initial-Founding-Conditions'**; that help entrepreneurs navigate 'the gap' and build sustainable businesses.*

First-time or serial entrepreneurs will find this book an invaluable tool. *Use its techniques and processes to imbalance the skill versus luck equation; raise the probability for success when starting 'your' business.*

***Henry Gregor** has over 30 years management experience in corporate America! StrategicVisions, an Oregon consulting company, specializes in creating business systems for startup and emerging growth companies. Henry's background in Fortune 100, Fortune 500, and startup companies (Intel, NEC, IDT, Tektronix) provide him with the skills and experience necessary to help companies deal with enhancement and growth. He founded a direct-marketing/telecom services company, and was on the teams of 6 startup companies.*