What does the startup journey look like? V4

What is the purpose of this article?

1) To illustrate the growth stages of a company, from startup, to mature company, to crisis or decline.
2) This article is intended for the board of directors, company leaders, and investors – to enable their discussion and understanding,

What are the critical learnings in this article?

1) This article applies to any size company at any stage in their evolution. Why? Any company, division, or major market/product segment may be in a startup or may become a startup through crisis or decline.
2) The market place determines what stage the company is in, not the company/
3) A startup is a temporary organization designed to search out a repeatable, scalable, and profitable business model with lots of potential customers who are willing and able to pay to solve their problems and needs. Startups are not building a solution. They are building a tool to learn what solution to build.

How to read this article

Section 1 outlines some general concepts.
Section 2 outlines the journey from the perspective of obtaining customers. There are 5 stages:
Stage 1 Find a potentially repeatable, scalable, and profitable business model with lots of potential customers who might be willing and able to pay to solve their problems and needs.
Stage 2 Create a repeatable, scalable, and profitable business model.
Stage 3 Scale and rapidly grow the company. At this point, no longer a startup.
Stage 4 Continuously changing a mature company.
Stage 5 Crisis or decline
Section 3 outlines potential financing journeys.
Section 4 outlines potential leadership journeys.

What are your risks and challenges?

1) There is no guarantee that you will progress from Phase 1 to Phase 4.
2) At any point, your company may move backwards, even from Phase 4 to Phase 1
3) Many large and long-established companies in Phase 4 don't realize that they have dropped to Phase 1.
4) Many large and long-established companies in Phase 4 don't realize that they need to be constantly changing.
5) The talent you need in Phase 1 may be very different from the talent you need in Phase 4 when you are a large global company.

Section 1 Some general concepts

What is a startup?
A startup is a temporary organization designed to search out a repeatable, scalable, and profitable business model with lots of potential customers who are willing and able to pay to solve their problems and needs.

Startups are not building a solution. They are building a tool to learn what solution to build.

What is a business model?
A business model describes how a company creates value for itself while delivering products or services to customers. Who are your target C&U (Customers and Users)? What C&U problems are your solving? What C&U needs are you addressing? What benefits and value are you enabling customers to achieve? What are the human and technology resources needed? What are the channels and partnership?

Incubators and accelerators

1) Many startups work with incubators and accelerators.
2) Some startups work with several incubators and accelerators.

Section 2 The journey from the perspective of obtaining customers.
Stage 1 Find a potentially repeatable, scalable, and profitable business model with lots of potential customers who might be willing and able to pay to solve their problems and needs.

Your journey is driven by your understanding of your potential cash paying customers. E.g. before building a beef ranch, you must understand whether or not your potential customers are vegetarians.

Phase 1 has 8 steps. Steps may be parallel and iterative. Some steps may be combined. You may have to go back some steps – your journey is not always moving forward.

Step #1 The founders have an idea

1) The founders have an idea. They first agree upon: equity split, their expectations regarding startup, how decisions will be made, the purpose of the company, and who has the title of CEO.
2) The never-ending process of interviewing and surveying potential customers and users begins.
3) Before building anything, 100 potential customers and users will be interviewed and 100's more surveyed. This begins the never-ending process of understanding the problems of potential cash paying customers

Step #2 Understand the potential customers and users before building a solution.
A business model canvas is a one-page document which easily defines and communicates the business model. There are 9 components to the business model canvas: customer segments, customer value proposition, customer relationships, channels, key partners, key resources, key activities, cost structure, revenue streams.

On day one, this canvas will be only assumptions. The interviewing and surveying process will validate or invalidate assumptions and identify new assumptions.

Value proposition
This is the customers and users perception of value. What are all the financial and non-financial benefits achieved? e.g. time savings, convenience, status, reducing negative emotions or risks, benefits achieved (financial and non-financial) achieved by the customers? What are all the costs incurred by the customer (purchase costs, costs to switch to your company, other adoption costs, ongoing costs)?

Customer journey map
The customer journey map is a visual representation of the customers' experiences with your company across all touchpoints. Customers interact via social media, email, live chat, or other channels, mapping the customer journey out visually helps ensure no customer slips through cracks. The journey also illustrates the customer interaction with influencers and other who impact the customer. The following are some examples of customer journey maps.
https://blog.uxeria.com/en/10-most-interesting-examples-of-customer-journey-maps/

The business model canvas, value proposition, and customer journey map are continuously validated and revised throughout the life of the company.

Customer engagement
Customer engagement is the relationship and interactions between customers (existing and potential) and the company. Engagement may include: useful content on the website, newsletters, interviews, surveys, etc. Engagement continues and improves throughout the life of the company.

Step #3 Create a Wireframe
Provide a visualization of the potential user/customer interface of what will the customers/users will perceive in the MVP. Note that customer/user interfaces are evolving to include voice interaction, hand gestures, augmented reality, neural monitoring, etc.

Step #4 Create Proof of Concept
The purpose of the proof of concept is to gain customer/user and domain expert feedback to validate specific critical assumptions of the future MVP.

Step #5 Create a Functional Prototype
The hardware or software prototype is only the hardware or software components of the MVP. The prototype's purpose is to enable learning from customers/users and support demonstrations to customers/users.

Step #6 Pilot Solution
This is the MVP, including onboarding, customer support, and exiting. The customer may not be paying for the pilot. The two-fold purpose of the pilot is to identify any issues which prevent customer/user problems and needs being solved and to identify any issues which prevent the customer/user from being delighted. The pilot is providing specific feedback on the value the customers/users are achieving. The pilot helps determine what price should be charged.

Step #7 MVP (Minimum Viable Product)
This should really be called Minimum Viable Solution. A *product* or service with just enough features to have delighted early cash paying customers by enabling them to solve some urgent problems or needs, and to provide customer/user feedback for future development. The MVP includes onboarding, customer support, and customer exiting. What the customer does not see or interact with (i.e. all the behind the curtain resources and activities) will likely be inefficient, have manual components, technology that is temporary, etc.

Customers/users determine whether or not there is an MVP, not the startup team. If the MVP does not solve some core customer/user problems and needs that the customer is willing to pay for there isn't an MVP. The startup needs to learn from customers and users what needs to change to enable an MVP. It may take several attempts before there is an MVP.

The initial MVP will have a small number of customers and users.

Step #8 Evolve the MVP until there is product market fit
The MVP will be iterated and enhanced until there is product market fit.

You know you have product/market fit if:
1) Your customers are so delighted that they are recommending it to others.
2) Your customers would be extremely disappointed if your solution disappeared.
3) Your customers can describe the big problem they had and the big benefit they achieved from your solution.
4) There is clear demand in the market place for your solution.
5) You are clearly and obviously differentiated from competitors in terms of the value customers achieve.
6) There are a large number of potential customers who believe their problems are urgent enough to buy your solution, and they can also afford your solution.

You do not have product/market fit if:
1) Your customers are not recommending you to others.
2) Your customers would not be extremely disappointed if your solution disappeared.
3) You customers cannot describe the big problem they had and the big benefit they achieved from your solution.
4) The marketplace is not demanding your solution. You have to persuade/educate your customers that they have a big problem with a big opportunity.
5) You are not clearly and obviously differentiated from competitors in terms of the value customers achieve. Your only differentiation is price.
6) There are not a large number of potential customers who believe their problems are urgent enough to buy your solution, and they can also afford your solution.

Your metrics, facts and analysis show that:
1) There are a large number of potential customers who believe their problems and needs are urgent enough to buy your solution, and they can also afford your solution.
2) The customers and users believe you have a better value proposition than the competitors.
3) The Net Promoter Score is excellent.
4) Churn is low and retention is high.
5) There is a metric for new customer value achievement (e.g. for Slack it was 2,000 team messages sent within 60 days).
6) Measuring and analyzing new customer value achievement metric (e.g. % of new customers achieving new customer value achievement indicator within 60-90 days).

Marc Andreessen's definition of product/market fit:
"The customers are buying the product just as fast as you can make it — or usage is growing just as fast as you can add more servers. Money from customers is piling up in your company checking account. You're hiring sales and

customer support staff as fast as you can.” The following is a link to the article with quote: [On product/market fit for startups]

Conclusion of Phase 1
1) You have found a potentially repeatable, scalable, and profitable business model with lots of potential customers who might be willing and able to pay to solve their problems and needs.
2) The leadership may not be able to create and lead a company that can scale. e.g. A Chief Technology Officer who was a great coder many not have the skills to manage a team of coders.
3) The existing processes and technology may be inefficient and unable to scale cost efficiently.
4) Many processes to enable rapid growth will be missing e.g. the capability to recruit, onboard, and develop large numbers of employees, profitability analysis by customer segment, cohort, channel, and partner.
5) Customer acquisition costs may exceed the lifetime value of the customer.
6) Your metrics may show an unprofitable business with customer acquisition costs exceeding life time customer profitability. Your analysis will show the potential for a profitable business with life time customer profitability exceeding customer acquisition costs.,

Section 2 The journey from the perspective of obtaining customers.
Stage 2 Create a repeatable, scalable, and profitable business model.
1) Ensure the leadership able to create a company is in place.
2) Changes may be required at the board of directors, advisory board, CEO, C-Suite, advisors, and consultants.
3) Develop a plan to create the company. New and changed talent, processes, technology, channels, and partners are required.

Customer understanding continues
1) Interviews and surveys continue.
2) The solution is enhanced to enable the company to understand whether or not customers and users achieve value, and how many achieve that value.

Section 2 The journey from the perspective of obtaining customers.
Stage 3 Scale and rapidly grow the company. At ths point, no longer a startup
1) Execute the plan from Phase 2
2) Add additional geographies, channel, partners, and customer segments. Drop unprofitable ones.
3) Add additional and different types of employees.
4) The customers and users are profitable (i.e. life time customer value is much larger than customer acquisition costs). The cash flow and accounting statements may show a loss because the customer acquisition costs are incurred upfront while the customer profits are achieved over the lifetime of the customer.
5) Continue to maintain or improve the value achieved by customers and users. Improvement actions are based on: Ongoing customer interviews surveys, and analysis of customers; Ongoing analysis of the competition, adjacent market, trends in the ecosystem including technology and customer behaviour.

Section 2 The journey from the perspective of obtaining customers.
Stage 4 Continuously changing a mature company.
1) Market size is constant or growing. Market share is constant or growing.
2) The company still needs to be continuously improved due to ongoing competition, changes in customers problems and needs, and trends in the ecosystem.
3) The company must continuously monitor the external world to determine if major changes are required. Blackberry and Nokia used to be leaders in phones. Their leadership crumbled due to changing customer problems and needs combined with competitors focused on meeting those changes.

Section 2 The journey from the perspective of obtaining customers.
Stage 5 Crisis or decline
Market size is shrinking and or market share is shrinking.
This could be for many reasons: e.g. the number of customers who perceive they have a problem they are both willing and able to pay for declines, customers perceive that they can achieve a better value proposition from competitors, changing regulations impact customer problem and needs, and/or your solution, etc.

Section 3 Potential Financing journeys

Financing stages

The startup may bootstrap (i.e. no equity or debt financing other than friends and family) or go through one of more stages of raising external financing.

#1 Friends and family
Most early startups depend upon founders, friends and family for funding.

#2 Angel investors, pre-seed investors.
These are the first investors outside of friends and family
1) Only 24% of angel deals in the US in 2019 were for pre-revenue companies.
https://www.angelcapitalassociation.org/angel-funders-report-2020/
2) in 2019, only 2.4% of the applications to Canadian angel groups received funding
https://investorreadiness.ca/cdn/bba/NACO-AngelActivityReport.pdf

#3 Seed investors
These are the second round of investors, after pre-seed investors

#4 Series A, B etc. investors
These investors are funding the rapid growth of the company

#5 Longer term
1) Company is bought and merged into an existing company;
2) Long-term private equity investors; or
3) Public markets

Types of financing

There are many types of financing:
1) Equity e.g. common stock, preferred stock.
2) Debt.
3) Convertible debt.
4) SAFEs (Simple Agreement for Future Equity). The SAFE is a contract which gives the investor the right to purchase stock in a future equity round (should there be one) subject to the terms and conditions in the SAFE contract.
5) Government grants, loans, tax credits.
6) Funding for research.
7) Paid pilots.
8) Profits and revenue sharing.
9) Etc.

Section 4 Potential leadership journeys

The skills, experience, and capabilities which leaders need to create value at each stage of the company are different. Leaders need to learn and transform themselves, be replaced, or lead the company into failure.
1) The company starts out as a very small team, searching for a repeatable, scalable, and profitable business model. Efficiency, profitability, and scalability are not the day one objectives.
2) Then the company needs to create a business which has the potential to be repeatable, scalable and profitable..
3) The company then grows through rapid growth.
4) Finally, a mature company is reached – massive rapid growth has ended.

The types of board directors also change. The skills, experience, and capabilities needed to grow and preserve the value of the company change.

The role of the CEO changes. There are three things only the CEO can do, and no one else in the company:
1) Create and maintain alignment of people with the purpose of the company;
2) Nurture the company's values, morals, and ethics (often referred to as culture);
3) Hire the leadership team and ensure they work well together. Up to 50% of the CEO's time will go hiring and managing the leadership team. At least 1/3 of the leadership team hires will not work out and must be exited.

65% of the failures of high-potential start-ups are due to people problems: relationships, roles and decision-making, and splitting the income. More than 50% of founders are replaced as CEO by the C round of financing. In 73% of these founder replacements, the CEO is fired rather than voluntarily stepping down.[1]

Footnotes

[1], Alistair Croll, Benjamin Yoskovitz, *Lean Analytics – Use data to build a better startup faster*, Sebastopol California, O'Reilly Media 2013, Page 41

[2]"The Founder's Dilemmas", by Noah Wasserman. Pages 299, 301 Noah was the Professor of Clinical Entrepreneurship at the University of Southern California and the director of USC's Founders Central Initiative. The book is based on his study of 10,000 founders from 3,500 startups.

What are your next steps?

1) Determine what stage your company is in.
2) Determine your talent requirements for the stage you are in, and the stage you want to move to
3) Assess your talent, and talent process, relative to the stage you are in.

What further reading should you do?

"The Hard Thing About Hard Things: Building a Business When There Are No Easy Answers" by Ben Horowitz. Ben describes the incredibly tough challenges and experiences he went through in the process of his ultimately successful startup. He then became a successful venture capitalist.

Startup terminology and metrics, http://koorandassociates.org/selling-a-company-or-raising-capital/startup-terminology-and-metrics/