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Start-up Failure: What reasons for start-up failures can be related to a lack of business development? How should the business development in start-ups ideally be designed?

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ABSTRACT

This direct research project aims to investigate the reasons of entrepreneurial failure of German start-up companies. By a literature review of recent studies on entrepreneurial failure and the conduction of expert interviews the research question “What reasons for start-up failures can be related to a lack of business development? How should the business development in start-ups ideally be designed?” was answered.

This work proves that a well thought through business development including a dynamic, not static, balance between the different levels of a business model could prevent many start-ups from failing and thereby the high failure rates could be reduced.

KEY WORDS

Start-up, Failure, Business Development, Business Model

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1. Introduction

1.1. Initial Situation

The emergence and proliferation of legendary success stories of start-up companies, founded by luminaries like Jeff Bezos or Mark Zuckerberg, has made many people dream of becoming entrepreneurs themselves. Furthermore, governments and society have high expectations of start-ups. They are expected to create additional jobs, to provide new technologies and innovations, and to yield business models that ultimately generate positive economic development (Vekic and Borocki, 2017). Consequently, there was a significant increase in the number of business creations worldwide. For instance, the year-on-year increase in business creations was 7.7 % on a global scale in 2018 (Schwab, 2018). However, the growing emergence of start-ups does not mean that all new businesses succeed to establish themselves and to grow steadily in their subsequent market. Entrepreneurs have to overcome obstacles in the founding process and successfully manage many problems in the initial phase of their business activities. Thus, statistics show that small-to-medium business enterprises (SME) have only a 10% chance to survive the first five years (Bee, 2004; Shane, 2008) and many who begin the start-up process even terminate it in less than one year (Shane, 2008). The high-risk and high-reward strategy followed by most start-ups leads to significant failure rates and a low ratio of successful start-ups. Hence, entrepreneurs are actually more likely to fail than to succeed. The long-term damage of this problem can be seen in many economies.

For instance, in Germany the federal government attached great importance to the topic of new business creations in its coalition agreement in 2017 since a dynamic start-up culture is seen as a prerequisite for Germany to remain an internationally competitive location. However, there is still a persistent declining start-up dynamic in Germany in

2018 (Wessels et al., 2018) since many start-up companies are not able to find sufficient financial resources for their start-up project (Pleschak et al., 2002; Storey et al., 1998). The main reason for this is that even experienced risk financiers are often not able to achieve a sufficient return on their investment in start-ups. (Harris et al. 2014; Kaplan et al., 2009; Lahr, 2014). Thus, the number of business creations decreases. This development entails the risk that Germany loses touch with worldwide economic change and the implementation of innovations (Wessels et al., 2018).

Consequently, this research project aims to investigate the reasons of entrepreneurial failure of German start-up companies and thus help to end the outlined development within the German start-up industry of recent years. In this point, the relevance of the work becomes clear because if we gain knowledge about the reasons, we are meanwhile able to help entrepreneurs to bypass failures by formulating strategic recommendations. Thereby, the high failure rates could be reduced and thus the preservation of capital for founding enterprises would increase.

1.2. Objectives This direct research paper aims to analyze failed and successful start-ups to identify causes for the differential development and to formulate strategic recommendations for the prevention of start-up failures. Existing related research results provide a profound analysis of many specific issues of entrepreneurial failure. Yet, these studies mainly examine three levels of analysis - the environmental level (Fatoki, 2014; Mueller et al., 2012), the organizational level (Dimitras et al., 1996; Lussier, 1995; Pretorius, 2008) and the individual level (Fatoki, 2014) – which do not draw the whole picture. Reasons for failure cannot be traced back to individual causes but usually interact in a multistage process (Seeger et al., 2003). A recent study by Cantamessa et al. analyzed 214 start-up post-mortem reports deriving startup failure patterns. In this study the relationships in the failure process between

the human factors and the other components of a start-up in the failure process, namely the business model, customer, the product, the organization and the environment, were investigated. The main result of this investigation was that a typical failure pattern related to the business development process exists. It seems that most entrepreneurs, after consolidating the Business Model, focus directly on sales or product/service improvements, disregarding the design of a reliable, measurable and engineered business development phase (Cantamessa et. al., 2018). Comparing other recent multidimensional studies that examine the most common reasons for start-up failures (Rogoff et al., 2004; Hammer et al. 2014; Fritsch et al., 2006; Van Gelderen et al., 2005; Duchesneau et al., 1990) it becomes clear that many reasons can be traced back to a lack in the Business Development process of the failed start-ups, for example running out of cash, difficulties in finding customers or too high costs in acquiring process, etc. Consequently, the following research question arises: **Which reasons for start-up failures can be related to the lack of a reliable Business Development process and how should this process ideally be designed in order to prevent start-ups from failing?**

2. Literature Review

2.1. Concept of Start-ups

It is important to make a distinction between the classic self-employed entrepreneur (Saßmannhausen, 2001), the small business and the fast-growing start-up company.

In literature, the term self-employed entrepreneur describes the business creation which purpose is the financial security of the founder's existence, thus an independent activity for the founder himself/herself e.g. lawyers or doctors, with no or only a few employees. With the departure of the founder these types of companies are most often disbanded

(Fallgatter, 2002; Jack and Anderson, 2002). Clearly distinguishable from this, are foundings of small businesses that are independent from the founding person. These companies are characterized by the fact that they have a higher number of employees. The business is established in the market through products and a brand (Freiling, 2006). Start-ups are basically a subgroup of this type of business foundations distinguishable by rapid growth and an innovation. Thus, a start-up company is a young company that is founded to realize an innovative business idea (often in the area of electronic business, communications technology or life science) and has not yet established itself in the market (OECD, 2014). Usually the business is started with a low start-up capital. In order to expand the business and to strengthen the capital base, it relies on venture capital or seed capital (possibly also through business angels). The rather short investment periods entail that the start-up has to develop a product, establish a market and has to grow fast in key figures like sales and number of customers. Moreover, a company with new management levels has to be formed within a few years (Jost, 2000). Only if this succeeds, the values of the participations increase and the venture capital company or business angel can realize corresponding target rents by selling their shares (Carland et al., 2007; Saßmannshausen, 2012). This immanent growth process requires start-ups to go through a series of developmental stages. The first stage is the *idea and seed stage* (Hougard, 2005) – in this phase the initial idea is solidified in an executable plan. This is usually done with personal or family resources. The main focus is on the compilation of the team, market research and a business plan. At that time the business is legally founded, the *start-up phase* of the company begins (Hougard, 2005). The focus in this phase is on the finalization of the product and its business concept as well as the subsequent entry and establishment in the market (Zademach and Baumeister, 2014). This includes usually the production ramp up, the development of an entrepreneurial infrastructure and the establishment of a marketing concept. In case of a favorable sales development and a sufficient acceptance of the company in

the market, the further development possibilities for the company become increasingly assessable. The company now leaves the early stages and enters the so-called *expansion stage* (Scheer and Ege, 2001). After passing through the *expansion stage*, the *late stage* follows. The company is now handled like as an established company. The transition between the *seed-* and *start-up* and *start-up-* and *expansion-stage* is very challenging for the founding team because the competence requirements are changing. In the first transition strategic inaccuracies of the seed phase can lead to larger challenges which must be overcome in the start-up phase. Furthermore, while in the seed phase, creative and innovative skills are required to produce a new business model (Freiling, 2011), in the start-up phase implementation capabilities are key success factors (Dickel et al., 2009). Moreover, the transition from the start-up- to expansion stage entails particular difficulties regarding the management of the growth-process and organizational expansion as well as the decision to scale in the right moment.

The before mentioned characteristics distinguish the start-up from “normal” companies and are at the same time the basis for essential problem areas. Firstly, the particular profit trend with high losses in the context of the start-up process is the reason for a particular vulnerability to insolvency or over-indebtedness in the early stages of existence (Achleitner, 2000). Secondly, most problems areas arise mainly within the transition phases from seed- to start-up- and start-up- to expansion stage which place special demands on the companies. (Jost, 2000). Thirdly, due to the novelty of the company there is uncertainty about the expected development path of the company. Dealing with and reducing ambiguity poses special challenges on the start-up.

2.2. Reasons of Start-up Failure

When did a start-up fail? First of all, it can be said that a company has failed if it cannot achieve the agreed business mission and goals, e.g. growth or profit targets, it has set for itself (Cochran, 1981). According to this definition, a business can fail without its economic existence is called in question. If the company cannot achieve its business mission that determines the value the company should bring to the market, it will not be able to operate in the market in the long term. Consequently, either the voluntary exit from the market or the cessation of business activities due to insolvency or over-indebtedness follows (Williams, 1993; Hall and Young, 1991). There are various reasons for insolvency. Possible trigger for a bankruptcy can be an unexpected loss of revenue or a suppressed increase in expenditure. If the start-up is unable to overcome the resulting liquidity shortage the bankruptcy follows (Shepherd et al., 2000). All in all, the definition of failure according to Cochran is expedient for answering the research question because, in the majority of cases, start-ups determine with their lenders certain objectives for financing.(?) If the company cannot achieve the defined goals, this may result in a funding freeze followed by the termination of business activity which does not necessarily result in an insolvency. Yet, it can be classified as a failure of the start-up.

What are the most common reasons for start-up failure according to literature? Failure of start-ups were usually studied with quantitative approaches based on financial data like statistical analysis (Beaver,1966; Kolari et al, 2002; Zmijewski, 1984) and artificial intelligence (Tam, 1991). The advantage of these methods is that they can be applied to a high number of annual reports. Nonetheless, company revenues are consequences of environmental, organizational and individual factors. Hence, an increasing number of works also addressed multidimensional approaches acknowledging that entrepreneurial failure was rarely caused by an individual factor. From this literature mainly 5-levels can be

determined, from which the subject of failure can be studied: (1) business model, (2) product, (3) organization, (4) environment and (5) customer (Duchesneau et al., 1990; Fritsch et al., 2006; Hammer et al. 2014; Khelil et al., 2012; Mueller, 2012; Rogoff et al., 2004; Van Gelderen et al., 2005). Viewing the aforementioned levels one can cluster the most mentioned failure reasons in literature and post-mortem reports (CB Insights, 2016 and 2018):

(1) The **business model** is the foundation of the start-up. This building block includes the following reasons for failure:

- *A wrong business model or the absence of it* - many entrepreneurs make the mistake and regard it as a definitive and static representation of the startup, yet it should be continuously evaluated and improved, based on market-/stakeholder-feedback.
- *The loss of the initial vision* happens when the entrepreneurs become too focused on the product itself. In this case they end up focusing too much on the technical development while losing the customer orientation and their vision (CB Insights, 2018)
- *Wrong positioning* occurs when there is a product-market fit, but it is unfortunately not perceived as one by the customers. (Porter, 1980)
- *Insufficient customer development* is a reason for failure when founders do not take enough time to carefully identify their customer segments and consequently focus the marketing campaigns etc. on the wrong customers. A good product sold to a wrong segment will not lead to success (Osterwalder et al., 2010).
- *A lack of traction* means that the start-up is unable to grow at a sufficient speed and ends up losing its competitive advantage or its investors (CB Insights, 2018).

(2) The **product** as the physical element of the company involves the following failure risks:

- *A lack in product development* leads to a user-unfriendly product since the start-up ends up ignoring the user's needs (CB Insights, 2016).

- *Insufficient feasibility* includes issues regarding the technical feasibility of the product which was ignored or emerged too late making the development impossible.
 - *To be stuck in old patterns* means that the current market needs to be changed but the start-up failed to evolve its product with the market (Miles, 2011).
- (3) The **environment** can include risks of failure that appear in the physical context the start-up operates in, e.g.:
- *High Competition* leads to failure in the case that the market fragmentation is too high not allowing newcomers to enter. (Porter, 1980)
 - *More capable competitors* do not allow the start-up to gain a sufficient portion of the customer segments or resources which eventually leads to failure. (Porter, 1980)
 - *Insufficient funding* is the most common reason for running out of cash. Either the investors were not found or the amounts of investments were small, usually combined with a bad organization of the small but available resources. (CB Insights, 2016)
 - *External problems* arise in specific geographic regions or industries in which political, economic or legal problems encounter the start-up. (Fritsch et al., 2006)
- (4) The **customer/user** recognizes the external human side of the start-up system which entails the following components of failure:
- *An inadequate customer base* is related to the reasons mentioned before like wrong positioning, competition effects, etc. which lead to unsustainability of the business due to a lack of customers. (CB Insights, 2016)
 - *Consciousness of customers* leads to a fragility in their loyalty since they are highly informed and easily attracted by competitors which increases the level of competition and the risk of price dumping. (Van Gelderen et al., 2005)
- (5) The **organization** recognizes the internal human side of the start-up system (founders, managers, workers) which can lead to the following failure reasons:

- *Problems in the cashflow* is usually the consequence of the mismanagement of resources and investments as well as wrong business development and it can be related in one way or the other to all aforementioned reasons. (Van Gelderen et al., 2005)
- *Lack of commercial know-how* occurs as a reason for failure when the founders have a strong expertise in their area (e.g. technical knowledge) but a lack in commercial knowledge. This leads to a great product but the absence of a business-model and its sustainable development. (Teece, 2010)
- *Bad growth-management* can be a reason for failure in case the decision to undertake systematic growth is missing a thorough study of the start-ups readiness to manage higher volumes. Furthermore, wrong scaling can lead to failure in case the increased volumes did not increase the profit. (Blank, 2013)
- *Organizational problems* - a start-up needs rules, roles, and tasks to be organized. The founders have to assign those to the team while efficiently managing all activities.
- *The team* is critical for the start-up's success since disharmony combined with a poor communication as well as missing skills can lead to failure. (CB Insights, 2018)
- *Lack of business development* as above mentioned, most of the reasons for failure can be connected to a lack of engineered business development. Often it is the absence of a commercial perspective that leads to failure. Founders need the knowledge of how to increase customers, sales and profits, as well as an understanding of how to make their business more profitable and self-perpetuating (Osterwalder et al., 2010).

The listed causes of failure should serve as a basis for the present study. Mentioned before many of the reasons for failure can be linked to a lack in business development. Therefore, in order to investigate this relationship in more detail, we must define what business development means in the next steps.

2.3. Business Model

The basis for strategic business development is **the business model** which gives entrepreneurs the possibility to conceptualize the relationships between their organization, its products, and markets (Morris et al., 2006). Therefore, it is appropriate to start by explaining the concept of business models and then move on to the definition of business development in start-ups.

Business models outline organizations as a set of elements in system-like relationships (Thomson, 1967; Viscio and Pastermack, 1996). The business model is a conceptual framework linking the strategic activities in the *world of business* with the operational activities in the *world of management* (Normann, 1977). Thus, it presents the different sub-elements of a business in an organized and comprehensible way. In literature mainly three levels of representation are used (Normann, 1977; Galbraith, 1982): the value proposition, the organized activities, systems and resources that produce the product and the prospective buyers of the product. The organization of these levels in a sequence represents the firm's so-called transformation process. This process starts in the internal environment under the influence of management. Thus, efficiency is determined by how well the organization utilizes its resources and activities in the internal environment in order to create products. The internal fit explains the consistency of the strategy aligning the activities to create the products (Powell, 1992; Miller 1992). The next step in the transformation process is the exchange of the produced products for money through transactions with customers in the market, which is part of the external environment (Miller, 1992). The external fit explains therefore how well the products fit the requirements of the environment. In this process model, the products are the link of interaction between the organization and its environment. But alternative models exist (e.g. Morris et al., 2006; de Witt and Meyer, 2004).

All in all, the business model provides entrepreneurs with a holistic view of the company in its context. On a strategic time horizon, a thought-through business model can be the source of a competitive advantage since it is difficult for rivals to imitate an entire configuration of elements instead of simply imitating or substituting a single product or service. (Porter, 1995; Sharon, 2005).

2.4. Business Development in Start-ups

Business Development refers to the measures that are targeted at the further development of the business model. Strategic considerations in the context of business development therefore include not static, a dynamic balance between the mentioned levels of the business model (Becker, 2017) which is usually carried out at the operational level by continuously reviewing and improving routines and current operations. Creativity and the willingness to question existing patterns of thoughts are essential features of successful business development activities. At a strategic level, it is about the general direction of the business in a longer time perspective which requires a detailed knowledge about the stakeholder's needs and wishes as well as the constant interpretation of signals from the external environment is required. As a discipline Strategic business development is mainly used when the observed changes in the external environment need to be matched by a change in the product's portfolio and so, to maintain efficiency, also requires an organizational change. Consequently, strategic business development helps a firm to take advantage of rising opportunities and to encounter threats successfully (Sørensen, 2012).

There are two alternatives in strategic business development measures (1) changing the business which refers to alterations in the existing business model and (2) adding businesses which demands the establishment of a completely new business model. The change in the business can occur in different forms. Alternative 1 could be that the firm needs to expand into a new market to establish another base for transaction of the current

product. Alternative 2 could be the replacement of a market with another market, which may occur, for instance, when a market needs to be abandoned because of intensifying rivalry. Alternative 3 could be a product replacement and Alternative 4 could be the diversification into a new business while abandoning the previous one (Sørensen, 2012).

Now, realizing these alternatives the options are limited. Commonly mentioned are (a) internal development, (b) acquisitions, (c) joint ventures, (d) licensing, and (e) venture capital investments (Roberts, 1980; Roberts & Berry, 1985). In the context of the start-up world options (b) to (e) must be disregarded as the young companies do not have sufficient financial and organizational resources to implement any of these options. In the corporate world options (a) to (e) mainly describe the most common measures taken in the field of strategic business development. Yet this work project focuses on the start-up world, therefore only option (a), internal development, can be taken into account as a possible measure. Internal development is consistent with the definition of business development in start-ups, it describes internal activities for the introduction of products to a market which can be realized through a new area of business or through a change of the transactions the organization is engaged in. The techniques used in internal development include, e.g. the assessment of markets and marketing opportunities, the business analysis of customers and competitors, the initiation of future business and follow-up business, and the assessment and rewriting of business plans (Becker, 2017).

All in all, the definition by Noda and Bower explains strategic business development in the context of this work project in a suitable way: Strategic business development takes place when companies try to deliberately influence their development process, and therefore it can be seen as "...part of top management's task as intervening in the emergent strategy process and attempting to maneuver the enterprise to a preferable course of direction" (Noda and Bower, 1996: 159).

3. The Derivation of Theoretical Assumptions

To answer the research question of this work theoretical based assumptions are formulated which will later be approved or refuted in a qualitative research approach.

Looking at the most common reasons for start-up failure it appears that many of them can be related to a lack of business development. The first category of failure reasons “business model” is the basis of business development. Hence, the first assumption is:

Assumption 1: Many entrepreneurs seem to neglect, a reliable engineered business development phase, after consolidating the business model.

Furthermore, many of the mentioned problems arise mainly within the transition phases from seed- to start-up- and start-up- to expansion stage which place special demands on the companies and its founders. Especially, failure reasons in the category “organization” can be related to difficulties in the transition phase. Hence, the different phases demand different skills of the company and a focus on different areas, thus the founders have to continuously adapt their organization to the new requirements for success (Jost, 2000).

Assumption 2: The transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase.

At a strategic level, business development is about the general direction of the business in a longer time perspective which requires detailed knowledge about the stakeholder’s needs and wishes as well as the constant interpretation of signals from the external environment (Sørensen, 2012).

Assumption 3: Start-up founders often fail because they do not consciously perform business development at a strategic level.

At an operational level, business development is a continuous review of the routines and operations of the start-up and the willingness to question existing patterns.

Assumption 4: Start-up founders often fail because they do not consciously perform business development at an operational level.

As a discipline, business development entails the assessment of markets, analysis of customers and competitors, initiation of follow-up business and continuous assessment and the redefinition of the business plan.

Assumption 5: Start-up founders often fail because they do not understand business development as a discipline.

All in all, one can conclude:

Assumption 6: Well thought through business development including a not static, but a dynamic balance between the different levels of a business model could prevent many start-ups from failing.

4. Methodology

4.1. Qualitative Research

To investigate the causes of the failure of start-ups and to prove a connection to a missing business development approach. The theoretical basis for the investigation of the causes was explained above. An empirical investigation has to follow in order to prove or refuse the theoretical based assumptions and to develop well founded strategic recommendations for action and how to institutionalize business development in start-ups in every phase of company development. For this goal, a qualitative research approach is chosen because „qualitative research can also provide memorable examples of important management issues and concepts. (Gephart, 2004). So 10 expert interviews were conducted with the guidance of an interview guideline (Appendix 1).

4.2. The Expert Interviews

Expert interviews were carried out to check if there are other reasons for the failure of the start-up companies. Furthermore, the assumptions were challenged, and ideas were jointly created as to whether institutionalizing of business development in start-ups would make sense and, if so, what it could look like. The selection of experts was based on criteria derived from the research question: The expert needed either experience with a start-up failure in which he was part of the founding team or the expert has experience with a successful start-up. Moreover, also one business angel that already accompanied different start-ups as well as the owner of an accelerator company were classified as experts. The experts were all active in the German start-up industry to secure a uniform context of their business activities. Yet, they were not all active in the same branches which ensures a certain degree of diversity in their perspectives and experiences. The interviews were conducted and recorded in German and later transcribed into English.

5. The results of the empirical investigation

Even if the interviewed experts come from different industries and occupy different roles in the start-up world (founder, business angels, accelerator owner, etc.), their answers and thoughts on start-up failures and the connection to a lack of business development are – perhaps unexpectedly – similar. Therefore, the analysis and presentation of results can be aggregated. Existing deviations of individual experts are mentioned and will be critically examined.

What is in common is that nearly all experts (except Expert I) have been involved with the failure of a start-up in some way or the other. They either have experienced the failure with their own start-up or have seen a start-up fail that they were involved with as a business angel or mentor in an accelerator program. Furthermore, they had a similar definition

of start-up failure which Expert A summarized well: “Failure of start-ups – I do not necessarily associate bankruptcy with failure. In my opinion also start-ups that are barely alive, yet do not reach real traction or do not reach their initial goals and mission, can be classified as failed” (Expert A).

The mentioned reasons for failure were various. Yet, looking closely most of the told failure-stories can be linked to two sub-categories: (1) the team of the start-up did not function/ work together/ missed important skills or (2) a typical failure pattern emerged related to the business development process which subsequently lead to one of the five aforementioned clusters of failure reasons.

(1) The start-up team: It is one of the key success factors on which all experts agreed up on and at the same time was mentioned as one of the biggest reasons for failure. Thus, for success the team has to combine certain skills like entrepreneurial spirit (Expert B, C, E), the openness/flexibility to change initial ideas for better ones and sufficient know-how for the product development (All Experts). Last but not least, commercial know-how was mentioned by most experts as an important component to be covered by the team. What was striking here is that two of the interviewed entrepreneurs neglected the importance of commercial know-how when they were asked. Yet, looking at the failure stories of those two start-ups it becomes very clear that both focused too much on their product development and failed in the end because they could not build a fruitful business around it – “we focused extremely on the product development, had a high burn rate mainly for the development and rent in the beginning, but in the end the customer base was too small” stated Expert F, and Expert G explained “in our perspective we developed the perfect product, but the customers did not like it, consequently we were not able to create a sufficient customer base (Expert G)”.

Looking at the before mentioned reasons for failure a bad team can consequently lead to all the common reasons for failure like inability to write a good business model (Expert

H), to develop a product that is not in line with the market (Expert G), running out of cash due to bad organization (Expert F) – naming only a few examples that can be traced back to the team.

(2) The failure pattern related to the business development process: What is in common is that the experts see many reasons for the failure of start-up companies in connection with the business development of the company. Thus, all in all, assumption 6 “*well thought through business development including a dynamic, not static, balance between the different levels of a business model could prevent many start-ups from failing*” gets confirmed based on the now following remarks. It is important to mention that the majority of experts have a similar definition of the term business development in the context of start-ups. All of them agreed that business development is based on the initial business model – “Business development starts on the basis of a business model. Therefore, you need an existent one for the start-up which you can constantly revise and improve or even discard in exchange for a new one” (Expert H). Expert G goes even further: “No start-up business model survives the first customer contact! Consequently, business development in the start-up area means constantly overriding the existing business model”. Especially, in the bootstrapping and seed phase most entrepreneurs awarded high priority to a well thought-through business development phase. According to Expert G “in the beginning of the founding process it is vital to challenge the initial business model over and over again”. Experts B, C, D, H, I mentioned the possibility of an accelerator program as an excellent possibility for an extended phase in the beginning that is focused on business development. They agreed that a “proof of concept” (Expert H) of the initial business model is vital because “entrepreneurs tend to love their initial idea so much that they are not open to question existing patterns or tend to neglect signals from the external environment which leads them on unfruitful paths” (Expert A). Thus assumption 1 “*Many*

entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase” was confirmed unanimous.

Moreover, all experts mentioned that it is good to plan but business development is not only strategy, it also requires a good balance of planning strategically and fulfilling operational tasks. This leads to another aspect, most of the experts (Expert B, C, D, E, H) agreed upon. They recommended to distinguish between business development on **(A) the strategic level** and on **(B) the operational level** of the start-up:

(A) “On a **strategic level** business development means the initial creation of the business model, the evolution of the business as well as the constant adaption of the business model on external requirements on the long run.” (Expert B). In this context all experts agreed with Assumption 3 “*Start-up founders often fail because they do not consciously perform business development at a strategic level.*” Especially in the beginning a well thought through business development phase in which the company sets its strategic course for the business within its business model is vital for the success of start-ups (Experts A-I). Furthermore, the experts also agreed in regard to strategic business development with Assumption 2 “*The transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase.*” which was nicely explained by Expert A - “I believe the different phases entail differing requirements for success and demand different skills from the entrepreneurs. Hence, the start-ups may need to completely reorganize to meet the new requirements which requires a good strategic business development process”. Therefore, on a strategic level a good business development process entails for the experts the constant observation of the external environment as well as the openness to question existing patterns and to set the strategic course accordingly (Expert A, B, C). Moreover, the manner to gain experience along the growth process of the business and to

be able to make meaningful use of it in later stages is emphasized by Expert A to be important in the strategic business development process. In this context Experts C and E emphasize additionally the importance of strategic human resource management and constant team development since the new requirements and skills in each development stage have to be fulfilled by the start-up team in order to be successful.

(B) “Business development on an **operational level** is a synonym for customer development and creation of a customer network which are basically the sales and marketing activities of a company” (Expert B). Important in this context is “to constantly question existing patterns of thought as well as routines and operations” (Expert E).

Thus, also Assumption 4 “*Start-up founders often fail because they do not consciously perform business development at an operational level.*” got mostly confirmed. Because business development also “concerns the internal processes therefore changes or next steps in the business development always need to be carried out by the team as a whole (Expert A). Only Expert G disagreed on the importance of business development at an operational level because he would only differentiate in this context between marketing and sales and he would not call it business development at an operational level. However, on the other hand the majority of experts saw business development as a discipline which should be carried out on an operational level by “the responsible team members for marketing as well as sales because they have to be actively involved in the business development process since they work closely with the market and customers, thus notice signals from the external environment first and therefore are able to help the founders with the examination of the existing business model and redirection of the growth-path” (Expert A). In addition, two experts Expert D and H talked in the context of business development at an operational level about the tremendous importance of the assessment of markets, analysis of competition and customers, as well as the initiation of new businesses. Expert

H even attributed the failure of his start-up mainly to it since due to their neglect of intensive research and analysis they recognized the high competition in their subsequent niche market too late. Thus, one can conclude in this context that Assumption 5 “*Startup founders often fail because they do not understand business development as a discipline*” was confirmed by most of the experts. In regard to the aforementioned five clusters of failure also the category environment can be related in this context to a lack of business development on an operational level. Additionally, also an interrelation to the failure categories organization, product and customers was uncovered here since with a well-engineered business development on an operational level Expert G and F would have been able to create a sufficient customer base and Expert A and G would have developed their product according to actual market needs.

6. Strategic Recommendations

The research question was intended to investigate the causes of the failure of start-up companies in greater depth and to provide a better understanding of the connection between failure and the business development process in start-ups. The development of successful and failed start-ups were compared and the causes of the different developments were reconstructed using narrative interviews. Based on previous work, already empirically researched reasons for failure were categorized and later linked to the business development process of the surveyed companies. It became clear that the five most common clusters of failure reasons, namely (1) the business model, (2) the product, (3) the environment, (4) the customer and (5) the organization, usually can be linked to a lack of business development. Based on the previously examined assumptions, which most experts agreed on, the strategic recommendations on how the business development in start-ups should be designed can be concluded as follows:

Recommendation 1: Entrepreneurs need to perform, after consolidating the business model, a reliable engineered business development phase e.g. through the participation in a start-up accelerator program.

Recommendation 2: During transition phases many founders should look for support in business development expertise e.g. by attaining external know-how by mentors/ advisory board members or the internal development of the team (trainings/new hires) in order to adapt their organization to the new requirements of the next phase.

Recommendation 3: Start-up founders should consciously perform business development at a strategic level which entails the constant interpretation of signals of the external environment as well as the openness to question existing patterns and to set the strategic course accordingly.

Recommendation 4: Entrepreneurs need to find a good balance between the strategic tasks of business development on the one hand and the performance of a well thought through business development at an operational level on the other hand. Thus, they need to continuously review continuously the routines and operations of the firm and have to be willing to question them.

Recommendation 5: Business development needs to be understood as a discipline which entails the assessment of markets, analysis of customers and competitors as well as the initiation of follow-up business. It means the continuous assessment and redefinition of the business plan which often also results in changes in the organization to fit new requirements.

7. Final Remarks and Outlook

In conclusion, there is still potential to enhance the methodology of this research project which would have gone beyond the scope of the present work. For instance, the qualitative analysis of expert interviews could be done with a larger base of experts from even more branches, with different backgrounds in the start-up industry and from different countries, e.g. from each country in Europe or even worldwide. Furthermore, the qualitative research could be combined with an automatized quantitative method analysing large data bases of post-mortem reports by identifying relevant factors in the text and subsequently looking for the link to a lack in business development. Additionally, also the recommendations could have looked deeper into existing methodologies like the lean start-up method or OKR “Objectives and Key Results Methodology” which were mentioned by the experts as interesting approaches to institutionalize a business development process in start-ups. But those methodologies need too intensive explanations for the scope of this work.

In a nutshell, this direct research paper proves that a well thought through business development including a dynamic, not static, balance between the different levels of a business model could prevent many start-ups from failing and consequently help to end the beforehand outlined development within the German start-up industry of recent years. Yet, by broadening the scope the results could become more significant and even more recommendations could be made to help entrepreneurs to start businesses successfully.

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I. Appendix

1. Interview Guide Expert Interviews

Warm-Up

“Thank you for agreeing to talk to me today. I am conducting research about the failure of start-ups in Germany and which reasons for failures could be related to a lack of business development. In the following, there are no right or wrong answers and, of course, everything we talk about today is *completely confidential*. Do you mind if I record this interview? We are going to cover some different topics in the next 30 minutes. If you have any questions, feel free to ask at any time.”

Background

Question 1: Could you describe your position in the context with start-ups including your responsibilities?

Question 2: How big is your company currently in terms of employees?

Question 3: What is your business model?

Specific

Question 1: Did you ever experience the failure of a start-up?

- If yes, what happened?
- If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Question 2: How would you define business development for start-ups?

Question 3: How should the business development in start-ups look like?

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Question 8: Do you think start-up founders should understand business development as a discipline?

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Wrap up

“This is the end of our interview and I want to thank you for your time. Do you have any questions or further comments that you would like to add? Thank you once again.”

2. Overview of interviewed experts

Expert	Name	Occupation	Start-up Experience	Reasons for Failure
A	Max Lüling	Former Founder “Free Machines” Consulting (CEO) “STI”	Failure of own start-up due to team discrepancies Success as Entrepreneur with a consulting company	<ul style="list-style-type: none"> ▪ Split up of founding team due to discrepancies ▪ No traction ▪ Lack of Business Development
B	Klemens Gaida	Consulting (Partner) “Eutelies Consulting” Accelerator (CEO) “1stMOVER”	Failure and success of start-ups that participated in his accelerator program	<ul style="list-style-type: none"> ▪ Lack of entrepreneurial mindset ▪ No Product-Market Fit ▪ Lack of Business Development
C	Stefan Meyer-Spickenagel	Former Founder “MinMatics” Consulting (Partner) Iskander Business Partner	Success of own start-up and founded companies	<ul style="list-style-type: none"> ▪ Lack of good team structure ▪ Too much focus on product development and too little attention on the commercial side ▪ Lack of entrepreneurial mindset ▪ Lack of business development on an operational level and on a strategic level
D	Dr. Stefan Kaas	Consulting (CEO) “PBC”	Success of own copmance and failure of befriended start-ups	<ul style="list-style-type: none"> ▪ Insufficient Business Model ▪ Too much focus on product development ▪ No product market fit ▪ Lack of business development on an operational level
E	Armin Iskander	Founder “AC-CELATE” Consulting (CEO) Iskander Business Partner Business Angel “Visionarity, Freemachines, Zeotap und	Success of own company Failure of start-ups in his Business Angel Portfolio	<ul style="list-style-type: none"> ▪ Lack of entrepreneurial mindset ▪ Too much focus on product development ▪ No product-market fit ▪ Neglecton of customer needs ▪ Too high expectations which leads to wrong scaling

		Spoteffects, Gett.Digital”		<ul style="list-style-type: none"> ▪ Bad team ▪ No flexibility ▪ Lack of business development
F	Confidential	Founder (CEO)	Failure of own start-up due to cash-flow problems	<ul style="list-style-type: none"> ▪ Lack of entrepreneurial mindset ▪ Insufficient distribution of product ▪ No product-market fit ▪ Too high burn rate in the beginning ▪ Lack of commercial know-how
G	Christian Müller Gorman	Founder CEO) “STI”	Failure of own start-up due to lack in the product-market fit	<ul style="list-style-type: none"> ▪ Lack of entrepreneurial mindset ▪ Too much focus on product development and too little focus on business development ▪ Too high sales acquisition costs ▪ Neglect of customer needs ▪ No product-market fit
H	Philipp Thomaschweski	Founder “Gett.Digital”	Failure of own start-up due to too high competition in the chosen market niche	<ul style="list-style-type: none"> ▪ Lack of business development ▪ Lack of market analysis ▪ Too much focus on product development ▪ Too high competition ▪
I	Hannes Lüling	Founder “Free Machines and RESMechanica GmbH”	Failure of own start-up due to discrepancies in team Success of next start-up	<ul style="list-style-type: none"> ▪ Team discrepancies ▪ Lack of entrepreneurial mindset ▪ Lack of business development
J	Lukas Brostek	Founder “VR Platform for self-driving cars”	None	<ul style="list-style-type: none"> ▪ Insufficient customer base ▪ Problems with founding team ▪ Lack of business development

3. Condensed Representation of the Expert Interviews

Expert Label	A	Company:	STI Consulting
Name (Expert):	Max Lüling	Size of Company (FTE):	25
		Start-Up Experience	Former Founder, Consulting (CEO)

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Firstly, I would like to define “failure of start-ups” – I do not necessarily associate bankruptcy with failure. In my opinion also start-ups that are barely alive, yet do not reach real traction, can be classified as failed.

And yes, I have experienced the failure of my own start-up “Free machines”. The business model was based on AI which developed algorithms that were relatively easy to implement in big recommendation engines. We as a company did a lot of good things. We designed a minimal viable product (MVP) and got customer feedback on it. In other words, we let potential customers try our MVP and adjusted it very quickly in short cycles. We actually already had managed the hardest first hurdle – we had a customer base, sales, and had entered the market successfully.

Yet, we failed because our founder team split up due to personal discrepancies. We did not have a worst-case plan for example for the case if one of us decides to leave or put in another way we did not have something like a marriage contract. I have seen and experienced such a split in the founding team many times and it is the most common cause that I see why companies fail.

Additionally, what I have often seen is that the roles of individual founding members are changing. In the beginning, for example, you have a great deal of administrative tasks, such as making contracts, doing company-law things, setting up employment contracts, finding out about regulations, researching, etc. This kind of tasks take approximately 40-60% of the available time in the beginning and this role is super important. But after some time, the company starts growing and the importance of market penetration gets more and more important while the administrative part remains the same significance. Liquidity management for example is in the beginning very important and after some time only a hygiene factor. It is clear that the CFO is just as important as everyone else, yet it is recommendable to set up a contract that defines the shares everyone get according to their contribution in the growth process of the company. Because also this can be a reason why the founding team ends up fighting and eventually splitting up.

Question 2: How would you define business development for start-ups?

I would define it as the constant challenging of the initial business model.

Question 3: How should the business development in start-ups look like?

My experience with start-ups is that in the beginning the entrepreneur usually has a great idea how to design his business and in the end the start-ups ends up doing something quite differently. There are two ways to deal with this issue: Firstly, one can handle everything very opportunistic and secondly, one can redirect the business model again and again until it is sustainable. For example, this repetitive redirecting is part of the lean start-up method. In this method, one always has a starting point and then defines the next steps to a predefined possible stage or goal in the future. I consider this planning process as very important because start-ups usually have limited resources and need to use them efficiently while getting to the next stages.

In my opinion, with every step in the development of their business examine if they are still on the right path towards their predefined goals in their business model. In case that the start-up left the initial path there are two possible actions:

- the founders can try to steer even harder in the direction of the business model
- the founders can adapt their business model accordingly.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

I believe some entrepreneurs tend to love their initial idea so much that they are not open to question existing patterns or tend to neglect signals from the external environment which leads them on unfruitful paths.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

Yes, I believe this can be an issue since the different phases entail differing requirements for success and demand different skills from the entrepreneurs. Therefore, the start-up may need to completely reorganize to meet the new requirements.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

Yes, this can be an issue because business development always concerns also internal processes therefore changes or next steps in the business development always need to be carried out by the team as a whole. Therefore, they have to be included in some way. Yet, I believe that business development is mainly the task of the founders in the beginning. Later on, when the start-up has more employees (7-8) especially the responsible team members for marketing as well as sales because they have to be actively involved in the business development process since they work closely with the market and customers, thus notice signals from the external environment first and therefore are able to help the founders with the examination of the existing business model and redirection of the growth-path.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

The constant challenging of the initial business model and the path towards predefined goals should constantly happen to not lose focus. I believe some entrepreneurs tend to love their initial idea so much that they are not open to question existing patterns or tend to neglect signals from the external environment which leads them on unfruitful paths. This is certainly a huge reason why so many start-ups fail. Many entrepreneurs gain experiences in the growth process of their business, yet there are unable to make meaningful use of them in later stages.

Question 8: Do you think start-up founders should understand business development as a discipline?

I do not believe that the start-ups need one employee only for business development. In the beginning this is the task of the founding team and ideally also in later stages they should always be involved in the business development of their company. Yet, changes in the business development of the start-up always have to be supported by the whole team. As aforementioned later on, when the start-up has more employees (7-8) especially the responsible persons for marketing as well as sales should be involved since they are very close to the market and the customer and can help the founders with the examination of the existing business model and redirection of the growth-path.

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Yes, I think so and many successful start-ups actually have some kind of institutionalized business development approach. The lean start-up method is an approach that maybe could be mentioned here. I do not necessarily think that start-ups need to live the philosophy "fail fast, fail cheap", yet I think it makes sense to shorten review cycles. Start-ups should not focus on a 5 year strategy plan. It is more feasible to use self-organizing quarterly cycles.

Name (Expert): Klemens Gaida

Size of Company (FTE): 4 + Experts

Start-Up Experience Former Founder, Consultant and Accelerator (CEO)

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Yes, i have experienced the failure of many start-ups. Nearly every day I see start-ups fail and this due to the fact the failure rate of start-ups is much higher than the success rate. Yet, one has to distinguish between the early stages of the founding process (seed-stage) in which the failure quotes are extremely high and later stages in which they tend to decrease.

The most common problem why so many “entrepreneurs” fail in the seed phase is because they often do not have the necessary entrepreneurial mindset. Thus, they maybe have a nice idea but are not persistent and smart enough to actually build a business around it. The second common reason is that many start-ups are not able to reach a product-market fit. Therefore, they have a good idea but there is no need for it in the market.

Question 2: How would you define business development for start-ups?

I would distinguish between business development on the operational level and on the “strategic” level. Business development on an operational level is a synonym for customer development and creation of a customer network. On a “strategic” level business development means the initial creation of the business model with the help of MVP’s and potential customer feedback, the evolution of the business as well as the constant adaptation of the business model on external requirements on the long run.

Question 3: How should the business development in start-ups look like?

In my opinion is it essential for start-ups to go through a certain kind of accelerator program in the beginning. Because many entrepreneurs have a great idea but do not have a real product concept behind. The accelerator offers the entrepreneur a network of specialists, mentors, coaches, potential customers, co-working space and other start-up contacts. The initial idea becomes transformed during the time in an accelerator program into product-concept/solution-concept. An accelerator is a “one stop shop” which offers everything that is needed in order to develop a business model behind the idea and helps to build an actual MVP in order to test it with potential customers. I think this is the best vehicle that a start-up can get in the early stage.

The first accelerator was founded in 2005 called “The White Combinator” in the US. In Germany there are accelerators from cooperates like “neon agile”, etc., others are financed by universities and then there are accelerators that get financed from federal funds.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

This can be a huge problem and goes hand in hand with the case that in the start-up team there are no real entrepreneurs. Because real entrepreneurs have the discipline and knowledge to turn their business model in the beginning from left to right and upside down, generate feedback from potential customers, etc. in order to make sure that they have the right business model. In case the business model is not the right one, a real entrepreneur needs to be open to necessary changes – even if this would mean to toss the initial business model and to create a new one.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

Yes, because those different phases require different skills from the entrepreneurs. Many start-ups do have an advisory board consisting of financiers, maybe a business angel and mentors which forces the founding team to think about their business development actually every month. Because the start-ups usually have to turn in a report every month that includes next to financials also the developmental terms of the company like customer development, market development, product market fit, etc.

In later stages it is important to have a great network of specialists that can give advises on specific topics.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

Yes, in later stages of the development of the start-up this can be an issue.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Usually they are forced to think constantly about their business development on a strategic level. Yet, it happens that entrepreneurs misinterpret the signals from the external environment and maybe do not change their direction in time.

Question 8: Do you think start-up founders should understand business development as a discipline?

I think those start-ups that actually go through an accelerator program do understand business development as a discipline the question is if they actually do it in the right way and keep on doing it after the left.

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Yes, I think so and many successful start-ups actually have some kind of institutionalized business development approach for the seed phase via

Expert Label	C	Company:	Iskander Business Partner GmbH
Name (Expert):	Stefan Meyer-Spickenagel	Size of Company (FTE):	40 + 600 Freelancers
		Start-Up Experience	Former Founder, Consultant and Partner

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

The most common problem why so many “entrepreneurs” fail is because they do not invest enough effort into a good team structure. Many entrepreneurs start with an idea and focus too much on the product/technology and do not put enough thought in what they actually need for the whole company that is about to be started in order to function successfully.

Many very successful start-ups in the US for example hire as one of the first moves their Human Resource Manager. They do not focus solely on the product but on a good balance between the different requisitions that come with the founding of a company. I believe if you have a good team that knows enough about the branche and technology you will be able to turn any business idea into a success.

Another problem is that many “entrepreneurs” are not flexible enough to leave their initial idea in order to fit the rising requirements of the external environment and market along the way.

Question 2: How would you define business development for start-ups?

I would distinguish between business development on the operational level and on the “strategic” level. Business development on an operational level is a synonym for sales. On a “strategic” level business development means the actual development of the business. In other words, how do I want to strategically design my business.

Question 3: How should the business development in start-ups look like?

Yet, I believe a company needs both, business development on an operational level as well as on a strategic level.

Every company needs to know what the customer actually wants and how you can sell the product to him. Thus, you can actually formulate your value proposition and design your product according to the market needs.

On the other hand, you always have to look at big picture what your company actually needs to function. Those basics like lean processes, good HR, etc. are actually very important success factors.

The Objectives and Key Results (OKR) which is a goal setting process seems to be a great tool for start-ups to institutionalize a consistent business development process. In this method the objective is the direction toward which the organization needs to be in the medium term. And the key results are milestones, things that allow the company to get there. Those key results need to be easily trackable, understandable and shared across the hole start-up team.

Therefore, to come back to the importance of the team it is necessary to have at least one person in the team that is capable to think strategically and organizationally. I think it is important to have this position internally, this person does not necessarily mean that business development is this person’s only task since this won’t be feasible in a start-up environment.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

Yes, this could be true. Especially, in the beginning of the founding process it is important to challenge the initial business model over and over again. Furthermore, many start-ups that are successful went through an accelerator program which could be seen as an extended business development phase. In the beginning this can

help a start-up immensely since there are many questions like what a suitable CRM Tool for our business is, etc. and this information is very fast accessible in an accelerator environment. Yet, sooner or later a start-up should be able to do their business development on their own via the person who has this function and as well their own network or advisory board.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

Yes of course, since in every stage the team needs different skills to adapt the new situation. Especially, because of that I believe it is vital to have a good HR manager in the team who looks out that all necessary skills are covered by the present team. In later stages it is important to have a great network of specialists that can give advises on specific topics.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

Well looking at my definition of Business Development – yes, this can be a reason for failure. Because if the business is not able to build a sufficient customer base or develop their product not according to the market needs they will consequently fail at some point.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Especially in the beginning the strategic aspect of business development needs higher attention and should be considered continuously. But also in later stages an entrepreneur always has to make sure that his organization is managed and organized according to the market and environmental requirements.

Question 8: Do you think start-up founders should understand business development as a discipline?

I think that it is necessary to actively shape the business development of the company and to identify the possible levers and formulate goals and measurements to get there.

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Yes, it is important for every business to have a great team that covers both sides of the business development.

All in all, it is vital to find a sufficient balance between theory and practice. Entrepreneurs should not focus entirely on the best plan while neglecting the business out there. On the other hand, if the entrepreneur focuses too much on the operational business, he might miss out to set the big growth levers in the right moment.

Expert Label **D**
Name (Expert): Dr. Stefan Kaas

Company: Pure Business Consulting
Size of Company (FTE): 25
Start-Up Experience Former Founder, CEO of PBC

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

The most common problem why so many “entrepreneurs” fail is because their business model is not well thought through. They neglect especially in the beginning very important details that are vital for the success of their start-up. For example, they only focus on the product development but forget to attain feedback from their potential customers. Consequently, often they end up with a product which is not needed or not in this configuration by their potential customers.

Question 2: How would you define business development for start-ups?

Business development per definition would be to point out opportunities in the market and trying to develop new ideas or direct my business on a path that it can seize those opportunities.

Question 3: How should the business development in start-ups look like?

Successful business development for start-up is doomed to fail if it only stays on the strategy level. Because to have a good plan is not enough, you also have to execute it and see how you can manage your operations to sell your product in the end to the potential market!

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

Yes, this is true. It is vital for entrepreneurs to start their business on customer needs. In the process they should always look out if their product still matches with those customer needs. Then any entrepreneurs focus too much on the product development while neglecting possible sales channels. They tend to underrate the importance since they believe that a good product always sells, but today the customers are very conscious and the competition in nearly every niche so high that it is essential to also put enough effort in planning and developing the sales channels.

A well thought-through business development phase especially in the seed phase of the start-up is very important to prevent start-ups from making those initial mistakes. For example, accelerators can help here. Yet, one has to keep in mind that an accelerator is only as good as the people who manage the institution.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

I believe that in those transition phases it is always tough for the start-up founders. Therefore, it might help to have some external help who is not involved financially with the business like a mentor or an advisory board that helps to look at the right questions regarding the further business development.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

Yes, as outlined before.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Yes, but I think the right balance between strategy and actual operations needs to fit.

Question 8: Do you think start-up founders should understand business development as a discipline?

I think that it is necessary to actively shape the business development in order to succeed. As well I believe that it is vital to acquire help from mentors or business angels or experts in the market throughout the different development stages of the start-up.

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Yes, it is important for every start-up because of the above mentioned problems that arise if you don't do it.

Expert Label **E**
Name (Expert): Armin Iskander

Company: Iskander Business Partner (IBP)
Size of Company (FTE): 40 + 600 Freelancers
Start-Up Experience Former Founder, Business Angel of 6 start-ups and CEO of IBP

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Yes, I saw many start-ups fail. Sadly, also some in which I was involved in as a business angel.

One of the biggest reasons for failure is that many founders start with an idea or vision and are often too emotionally involved with it to be able to adapt their idea to market needs. They focus too much on their initial idea and neglect the customer needs, an according product development and signals of the environment.

Another problem is that many founders have too high expectations. They want to create the next unicorn in the market without considering that a business with only 5 million instead of 100 million but a margin of 20% (1 million in profits) is still a fruitful and totally great business!

Question 2: How would you define business development for start-ups?

Business development per definition would be to derive the development of the business from the start-ups strategy.

Question 3: How should the business development in start-ups look like?

Successful business development for start-ups asks for many skills within one or a hand full of persons. Because one day an entrepreneur has to develop new ideas and push them forward and the next day they have to improve the sales operations. Those tasks ask for totally different skill sets which makes it vital for start-ups to have a great team that splits the tasks of the business development.

Yet, I would not institutionalize the business development task because the start-up will lose operational excellence if they only focused on the theory and neglect the actual operations. There should be an advisory board or mentor that "works on the system but not in system". Ideally the persons that help to formulate strategy are not all involved financially or emotionally with the business but have great business experience and ask the right questions and set the right impulses.

All in all, it is always important to find the balance between operational excellence and strategic plans. Therefore, I would outsource the business development task into the advisory board to not lose focus on the actual business development in an operational sense.

Additionally, it could be fruitful to come up with a business that actually takes in failed start-ups and tries to recycle them.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

Well as I said a start-up needs a good balance between the operational excellence and theoretical business model.

Therefore, one has to pay attention to not overengineer this phase.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

Yes, they do entail a high failure risk as different skills are asked in each stage of the start-up development process. The start-up has to ensure to have the right people in each stage. In the first stage it is important to have a real entrepreneur with ideas and robustness to push his idea forwards as well as knows how to develop the product, in later stages is of high importance to have someone who knows a lot about the commercial aspects of building a business.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

Yes, as aforementioned. The emotional attachment to the initial idea can inhibit the founders to question their existing patterns of thought as well as routines and operations.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Yes, because I think the right balance between strategy and actual operations needs to fit and often it does not. Founders commonly focus more on one and less on the other.

Question 8: Do you think start-up founders should understand business development as a discipline?

I do not think that one person should solely focus on business development. Especially, not one person that is in the company. I would always recommend to have someone outside the business a mentor or advisory board that focuses a lot on the strategic development and looks at the general direction of the business. I think it is important that this person is outside of the business because inside they should focus more on the operational excellence which also is part of business development but on an operational level.

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Yes, I see potential here that this could save some founders from failure. Especially those with limited commercial knowledge.

Expert Label	F	Company:	Start-up in pharma industry
Name (Expert):	Confidential (Mr. Seibt)	Size of Company (FTE):	3
		Start-Up Experience	Founder

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Yes, I experienced a start-up failure with my own start-up. I started a business in the branch of pharmacogenomics in which I discovered how genomes influence the effect of drugs. In the first step I received financing from banks and was able to set up a laboratory in a private clinic. I build a DNA analytic tool which could predict the individual amount of drug for a person based on their DNA structure. The goal was to reduce the side effects of medication to a minimum. Our team consisted of a biologist, a doctor, a lawyer and me a former pharmacist.

The start-up failed mainly because of the insufficient distribution of our product. We simply could not create an adequate customer base. The potential customers were doctors and pharmacists in Germany and it became pretty fast clear that most of them are extremely conservative and were not ready for our very modern product. We even tried politics to place our product in the guidelines of the German Medical Association, but that too has proven to be extremely difficult. Furthermore, we also went into online marketing which was medium successful. Yet, some very rich people from Russia and China became interested in the product. Therefore, we focused more on the luxury industry worldwide.

Another reason for the failure was probably the very high burn-rate in the beginning because we focused extremely on the product development. The lab instruments and the rent were extremely expensive. The product was perfect in the end and it is very hard to copy for competition. Yet, the product did not fit the German market. The costs were immense and towards the end we had to outsource the decoding of DNA to an external laboratory because it was too expensive to use our own lab.

Furthermore, we lacked a lot of commercial know-how. We actually succeeded for five years but in the end the customer base was too small.

Question 2: How would you define business development for start-ups?

Business development per definition is in my opinion the interaction of marketing and sales.

Question 3: How should the business development in start-ups look like?

An entrepreneur needs to question the existing strategy and has to be open to discard sometimes the initial ideas and try something new.

I believe it is very important to revise the existing business model in certain loops.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

Well as I said a start-up needs a good balance between the operational excellence and theoretical business model.

Therefore, one has to pay attention to not overengineer this phase.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

I think it is very important to get some external help in these transition phases.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

Yes, as aforementioned.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Yes, as aforementioned.

Question 8: Do you think start-up founders should understand business development as a discipline?

N/A

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Yes, I see potential here that I could have focused more consciously on business development and maybe I could have seen some external signals more clearly then.

Expert Label **G**

Name (Expert): Christian Müller Gorman

Company:

Start-up (Consultary) and STI

Size of Company (FTE):

2

Start-Up Experience

Founder, CEO of STI

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Yes, I experienced a start-up failure with my own start-up. Our vision was to build a platform to offer small advisory services (e.g. business plan, market analysis, etc.). Everything was supposed to go over a digital platform. Our target customers were SMEs.

One of our biggest mistakes was that we were so fond of your idea that we did not challenge it with customers. Another problem was that we focused too much on the product and were in love with our technology. We developed the perfect product for us, but it was not perfect in the eyes of our potential customers. Consequently, we were not able to create a sufficient customer base. Additionally, our sales acquisitions costs (SAC'S) would have been immense to open the SME market for digital consulting services.

Another problem was that we were too self-confident about our know-how because we all had several years experience in bigger consultancies. Therefore, we never questioned anything about our initial idea and did not listen to external signals or feedback from our potential market.

Question 2: How would you define business development for start-ups?

I would start with the definition of business development in corporates where usually it is understand as improving my product portfolio according to market needs.

In the start-up world, I understand business development as a process of challenging the initial business model over and over again until you define a good and feasible one. My experience is "no start-up business model survives the first customer contact!". Consequently, business development in the start-up area means constantly overriding the existing business model.

Question 3: How should the business development in start-ups look like?

As outlined before, but I want to add that this task solely should be done by the founders themselves. Because they are the only ones who are able to change the entire business model.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

Yes, definitely! Because we failed as well because of the lack of a conscious business development phase in the beginning.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

In my opinion this is often the case and that is why I believe the task of business development should solely be inhabited by the founders themselves. Because they need to make their own experiences with their business model and revise it if necessary.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

No, I don't think so. Because at an operational level I would differentiate between marketing and sales but I would not call it business development.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Yes, as before mentioned.

Question 8: Do you think start-up founders should understand business development as a discipline?

Yes, but I think only in the seed and start-up phase this really makes sense because as soon as your business takes a certain size you can not make bigger changes in the whole strategic direction all the time.

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Yes, I think especially in the beginning this could prevent many start-ups from failing and also in Silicon Valley they actually research exactly this approach in the recent years.

Name (Expert): Philipp Thomaschweski

Size of Company (FTE): 2

Start-Up Experience

Founder, CEO of STI

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Yes, I experienced a start-up failure with my own start-up. Our vision was to build an online shopping concierge. We tried to test our product in a super lean way. We did not invest a lot of money in the development of the product and instead focused on the customer needs. In the end we exchanged our initial vision of an online shopping concierge with an online booking tool for business travels.

Yet, later on it became very clear that actually our competition in this niche was too high. Many similar start-ups went through an equal process coming from an idea in the personalized online-shopping area into the niche of business travels. I believe if we had done a more detailed market research/ GAP Analysis in the beginning we would have seen the very high competition in this niche much earlier.

Another phenomenon that I've seen more often during my consulting career are start-ups that have somehow gained a foothold in the market and have enough income to survive, but actually are not really successful.

I think in this case the start-up actually also failed and some entrepreneurs should be more courageous to develop their company further even if this means to leave the initial idea behind.

Furthermore, the founding team is very important for the success of the start-up.

Question 2: How would you define business development for start-ups?

In my opinion business development starts on the basis of a business model. Therefore, you need an existent business model for the start-up which you can constantly revise and improve or even discard in exchange for a new one.

Question 3: How should the business development in start-ups look like?

An entrepreneur needs to question the existing strategy and has to be open to discard sometimes the initial ideas and try something new.

I believe it is very important to revise the existing business model in certain loops. Yet, I believe there has to be a balance between the strategic aspects of business development and the actual operations that have to be further developed. Because a good plan is great, but you also need to try it out.

I think the cycles in which business development is consciously performed should be very short in the beginning – nearly weekly. But once you have a proved business model and good product it is not necessary to perform business development every week maybe quarterly.

Involved in the business development should be responsible employees for sales and marketing as well as the product owner since they get the direct market feedback. Furthermore, the managing directors (founders) should be involved to bring the strategic perspective.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

Yes, definitely! We tried with the lean start-up method to have exactly this extended “proof of concept” and as aforementioned we should have taken even more time in this phase, e.g. for the analysis of the potential market! We missed out on the environment analysis and did not see that the competition is too high since they already went through several founding rounds.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

I never experienced those different phases myself yet. But it sounds reasonable.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

Yes, I believe it is vital that actually the persons in the team that are actively doing the marketing or sales process should be as well involved in the business development process since they are the ones that are close to the customer and know what is good or bad about the product and its processes.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Yes, as above mentioned that is actually what we should have done more intensively.

Question 8: Do you think start-up founders should understand business development as a discipline?

Yes, I believe it is vital to listen to external signals from the environment via the assessment of the market, customer and competition analysis, etc. in order to see if the initial product has a good market fit and future.

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

Yes, I think so because it is fundamental in the beginning to challenge the initial business model and listen to the potential customers if there is actually a need for this product as well as on the other hand to analyse the environment if the idea is actually feasible. Furthermore, I believe that business development also entails the organizational side – do I actually have the skills and processes to put my business model into action.

Expert Label I	Company:	Start-up (Free Machines and Res Mechanica GmbH)
Name (Expert): Hannes Lüling	Size of Company (FTE):	13
	Start-Up Experience	Founder, CEO of res mechanica GmbH

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Yes, I experienced a start-up failure with my first start-up. Our vision back then was to build an AI based tool for the telecommunications industry that could send personalized customer communications – on different channels, with individual offers, etc.

Why did we fail? One of the biggest reasons was discrepancies within our founding team. We had a dispute about if we should directly focus on one special industry or if it would be smarter to try the product in different markets and to see which one suits it the best. In the end, two of the founders dropped out. We did not have a good culture of discussion.

Question 2: How would you define business development for start-ups?

Business development is based on the initial business model which entrepreneurs should challenge in the process of business development. They should start developing their product while constantly generating feedback from potential customers. Furthermore, I believe as a discipline in this context you have to make a competition analysis and look for potential in the market to put your product in the right spot.

Question 3: How should the business development in start-ups look like?

I believe it is recommendable for start-ups to go through an accelerator because the good ones challenge your business model in the right way and teach you consciousness about the importance of customer development. In other words, they motivate you to develop your product with the customer.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

Yes, definitely! We tried with the lean start-up method to have exactly this extended “proof of concept” and as outlined before we should have taken even more time in this phase, e.g. for the analysis of the potential market! We missed out on the environment analysis and did not see that the competition is too high since they already went through several founding rounds.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

I do not fully agree in this case. In this case entrepreneurs need to find a good balance between operations and strategy. Experience comes not from planning, but from trying. Therefore, I think trying out something and not overanalyzing everything is important in this case. Yet, it is important to always take a look at the bigger picture.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

I think a good balance is important.

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

Yes, this can be true and another big problem here can be the case like ours when the founders do not agree on the strategy.

Question 8: Do you think start-up founders should understand business development as a discipline?

Yes, as above mentioned that is actually what we should have done more intensively.

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?

N/A (Time-Issue)

Expert Label

I

Name (Expert): Lukas Brostek

Company:

Start-up (TBD)

Size of Company (FTE):

3 + 2 students

Start-Up Experience

Founder (Bootstrapping stage)

Question 1: Did you ever experience the failure of a start-up? If yes, what happened? If no, what do you think are the most common reasons for failure and why did your start-up succeed so far?

Not yet, as I am in the seed phase with my first company. Therefore, I can not contribute here.

Yet, I believe that it is important to start with a need in the market. Because many entrepreneurs begin with their product idea but do not challenge this idea with potential customers to see if there is actually a need for it. Reasons for failure can be an insufficient customer base, problems with the founding team, etc.

Question 2: How would you define business development for start-ups?

Since I have a very technical background and we are in the very start – I can not give a good definition here yet.

Question 3: How should the business development in start-ups look like?

I think it is important to challenge the product in its development process with potential customers. Furthermore, it is important to get a good overview of the market and potential competitors.

Question 4: Do you agree that most entrepreneurs seem to neglect, after consolidating the business model, a reliable engineered business development phase? If yes/no, why..

I believe it makes sense to go through some accelerators to do exactly this.

Question 5: Do you agree that the transition phases entail a high failure risk because many founders lack in business development expertise and therefore fail to adapt their organization to the new requirements of the next phase? If yes/no, why..

As I have not been there yet I can not really comment. But I think it could be interesting to have something like an accelerator in those different transition phases again.

Question 6: Do you agree that start-up founders often fail because they do not consciously perform business development at an operational level? If yes/no, why..

N/A

Question 7: Do you agree that start-up founders often fail because they do not consciously perform business development at a strategic level? If yes/no, why..

N/A

Question 8: Do you think start-up founders should understand business development as a discipline?

N/A

Question 9: Could a well thought through business development including a dynamic, not static, balance between the different levels of a business model prevent many start-ups from failing?