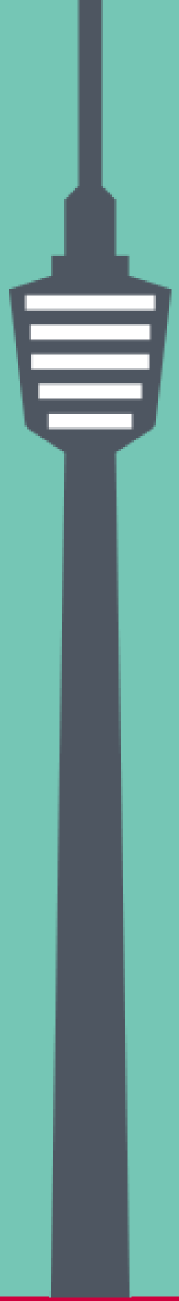

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STUTTGARTER STARTUP STUDIE

2014

Overview

Title and Research Question

Accelerating Startups. An empirical analysis of young companies�much growth phases and implications for regional economic policy using the startup ecosystem of Stuttgart as an example.”

Research Question:

Which are perceived success factors for accelerating a startup business in the TIME industry?

Startup Success Factor Research – Actual Research

- Search for startup success factors is long-lasting and still ongoing in academia (e.g. on technical new ventures: Stuart/Abetti 1987, on 2nd generation proprietors: Lentz/Laband 1990, on founder-CEOs: Wasserman 2003, on University business incubators: Lee/Osteryoung 2004, on non-financial goals: Walker/Brown 2004, on socio-demographic factors: Ramana/Raman/Ramachandra 2009, on small businesses: Cholotta/Drobnic 2009, on New Media Industry: Yoo et al. 2012, on entrepreneurial experience: Merz/Witt 2013)
- In Germany success factor research experienced in the 2000s a controversial debate regarding its scope, effectiveness and rigour (Nicolai/Kieser 2002, Wolff/Herrmann/Niggemann 2004, Albers/Hildebrandt 2006)

Startup Success Factor Research - Adaption

Despite that, our study defines success not as an objective variable (e.g. revenue, EbITDA, CAGR) but as a result of self-estimation by the participating entrepreneurs („Overall, would you rate your startup business as successful or not?“)

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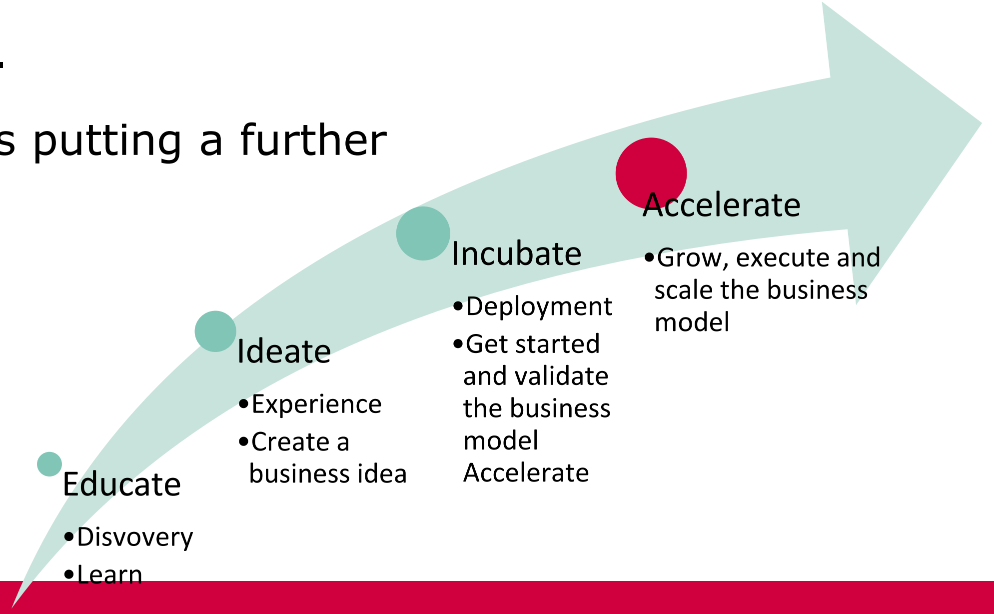
Accelerators

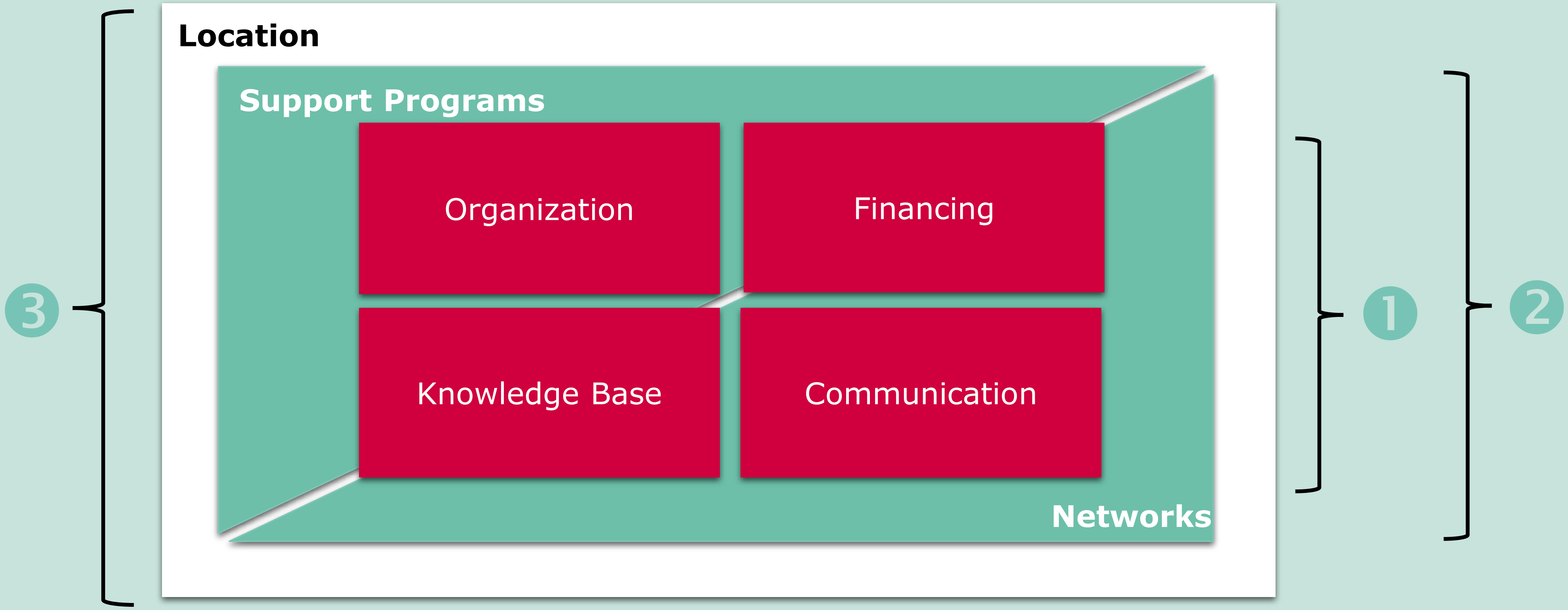
- No consistent definition, but an analysis of 40 leading programs worldwide suggest that Accelerators are typically seen as programs supporting the growth of startups which have found a first working business model.
- Number of programs in Europe has increased by close to 400% between 2007 and 2013 (Salido, Eduardo/Sabás, Marc/ Freixas, Pedro 2014).
- The upcoming EU-program „Horizon 2020" is putting a further spotlight on such initiatives due to funding (*Europäische Union* 2013).



Sample

- Sample choice based on three criteria:
  - Startup is part of TIME industry (telecommunication, information technology, media, entertainment)
  - Startups must have been around for at least 1 year and generating revenue
  - Startup is based in Baden-Württemberg/Stuttgart region (as the study addresses regional needs in terms of Gründungsförderung)
- Sample sources were:
  - EXIST-database
  - Databases of startup-/entrepreneurship networks (Startup Center Hochschule der Medien, Gründerzeit Baden-Württemberg, Gründerszene et al.)

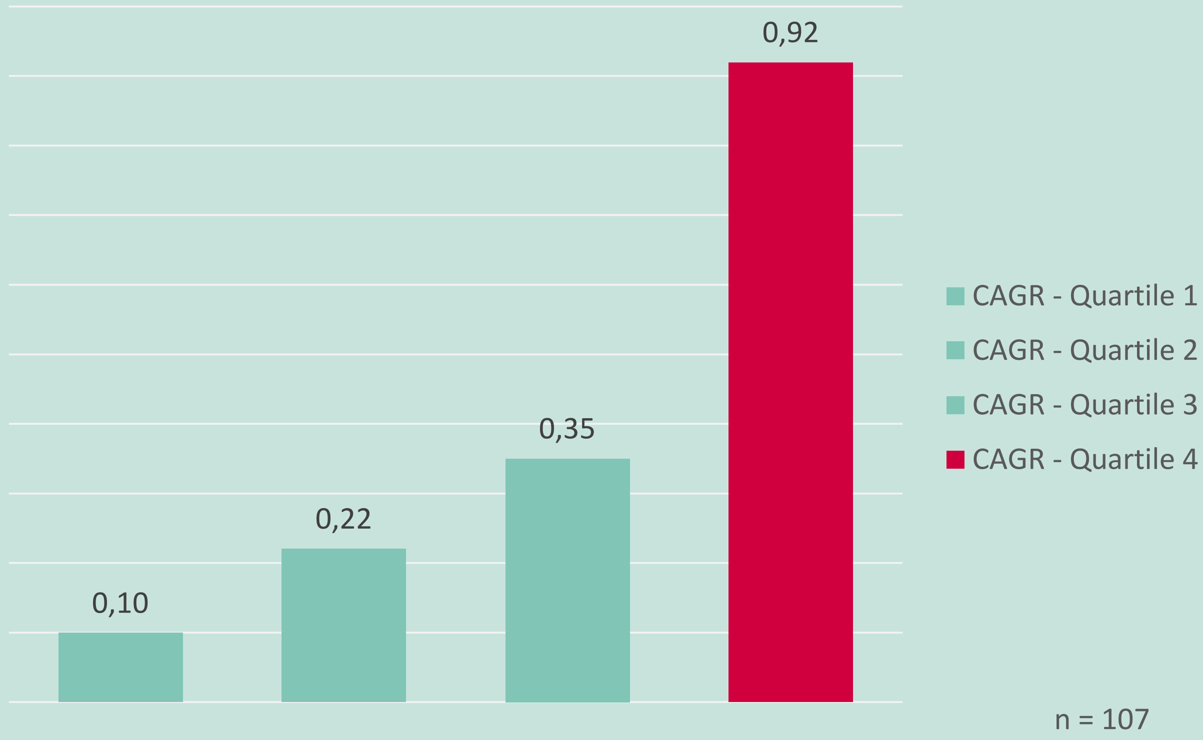
Research Method - Phase Model



Key Findings – Overview

1. **Growth:** only 25% of startups really scale their business model
2. **Financing:** 76% of the startups abstain from Venture Capital, other forms of (private) equity and longterm bank loans. Yet almost half decide right away on a corporate structure allowing for those funds. In hindsight only 28% perceived liquidity and availability as a bottleneck.
3. **Networks:** 97 % of the startups were involved in one or more forms of networks. Informal experience and knowledge sharing is mentioned by 77 %, but formal Sales and R&D-cooperations are both mentioned by 60% of the startups.
4. **Support programs by local, state and national institutions:** 44% of the startups have seeked advice and a third benefitted from financial support. Requirements, intransperency and lack of know-how by persons in charge were perceived as the biggest challenges.
5. **Location:** Startups are fairly loyal, 70 % see Stuttgart as the preferred place to run their business due to access to potential employees and customers. Still, 80% see areas for improvement, in regard to support programs and the war for talents with large corporations

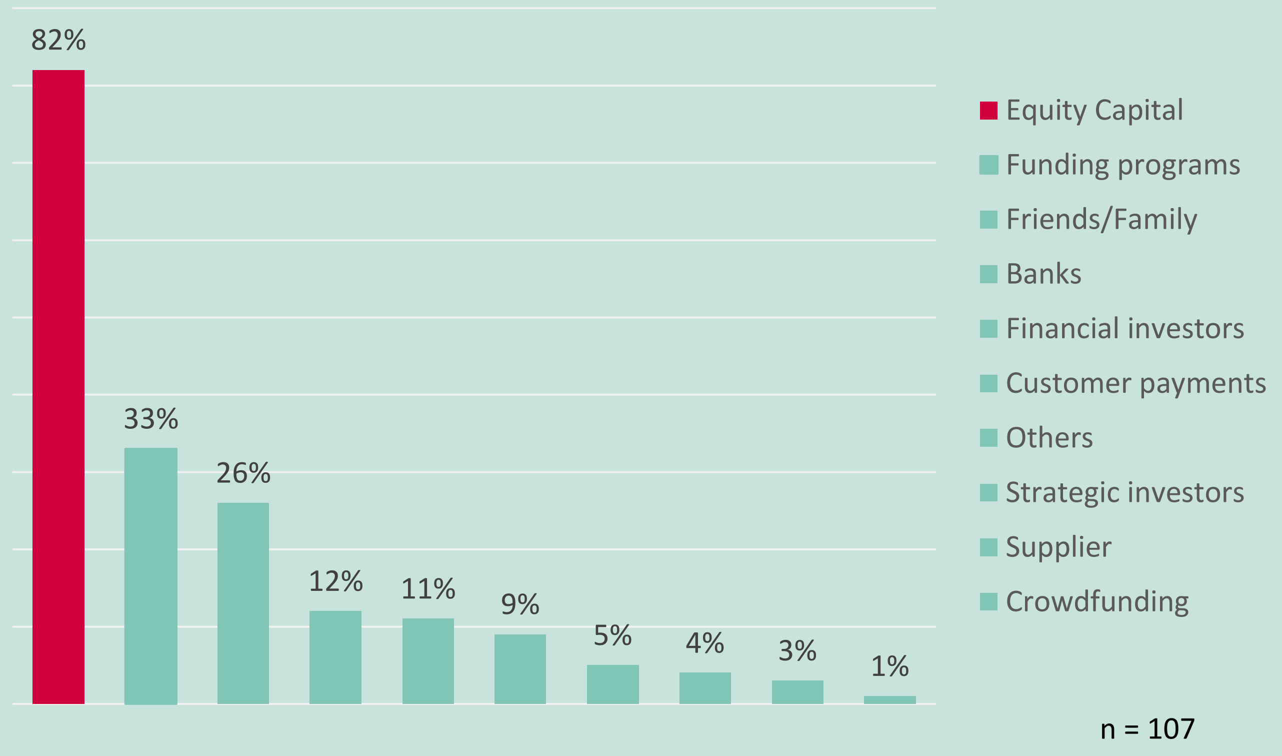
Growth – Scaling of the Business Model



<u>Explanation:</u>

Only 25% of startups really scale their business model

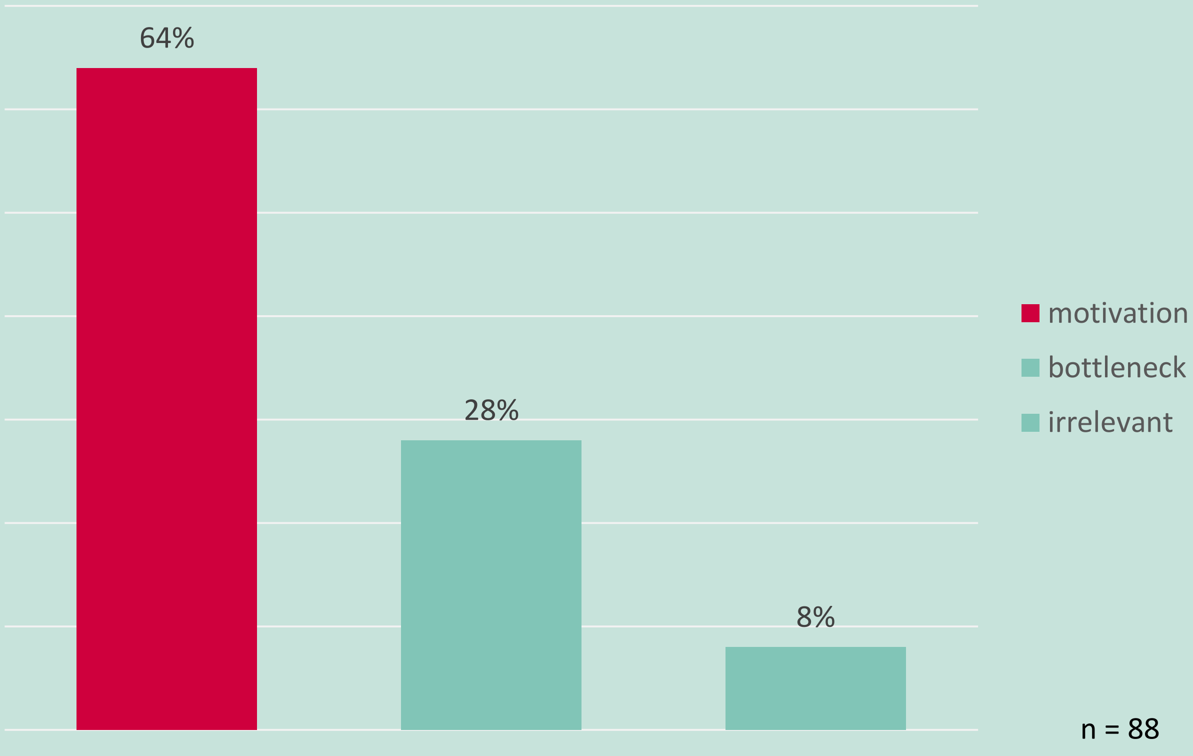
Financing – Funding Capital



<u>Explanation:</u>

76% of the startups abstain from Venture Capital, other forms of (private) equity and longterm bank loans.

Financing – Motivation, Bottleneck or Irrelevant



Explanation:

In hindsight only 20% of the startups which were founded with equity capital perceived liqduidity and availability as a bottleneck.

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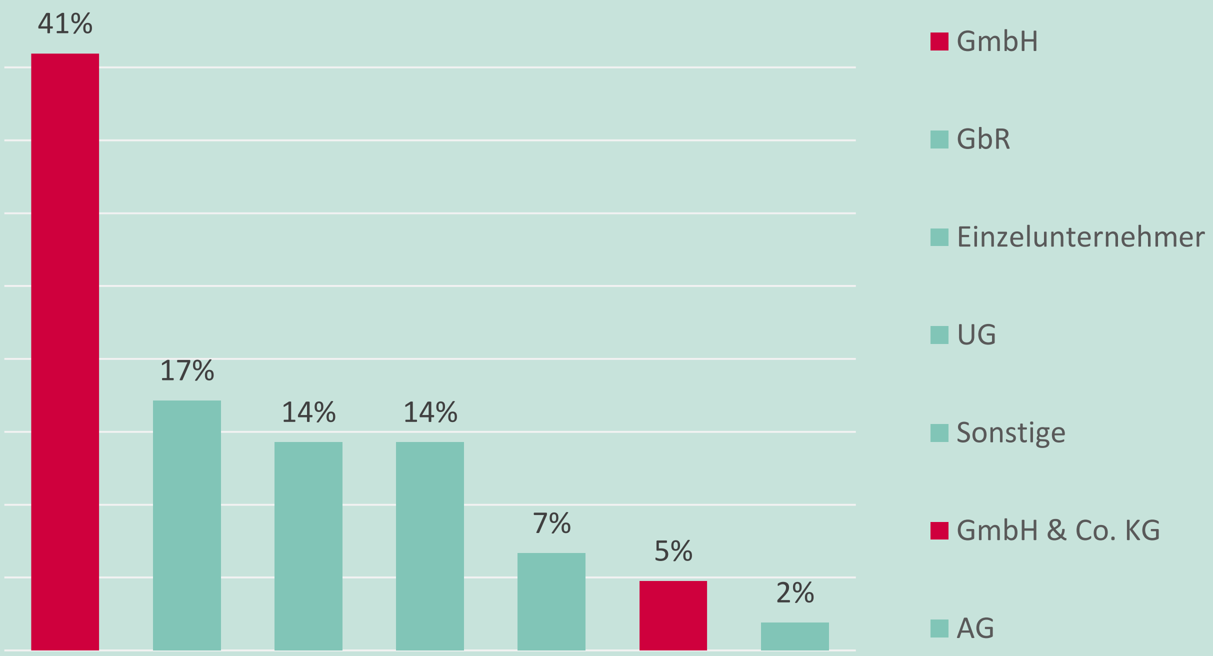
Financing – Initial Legal Structure of the Organization

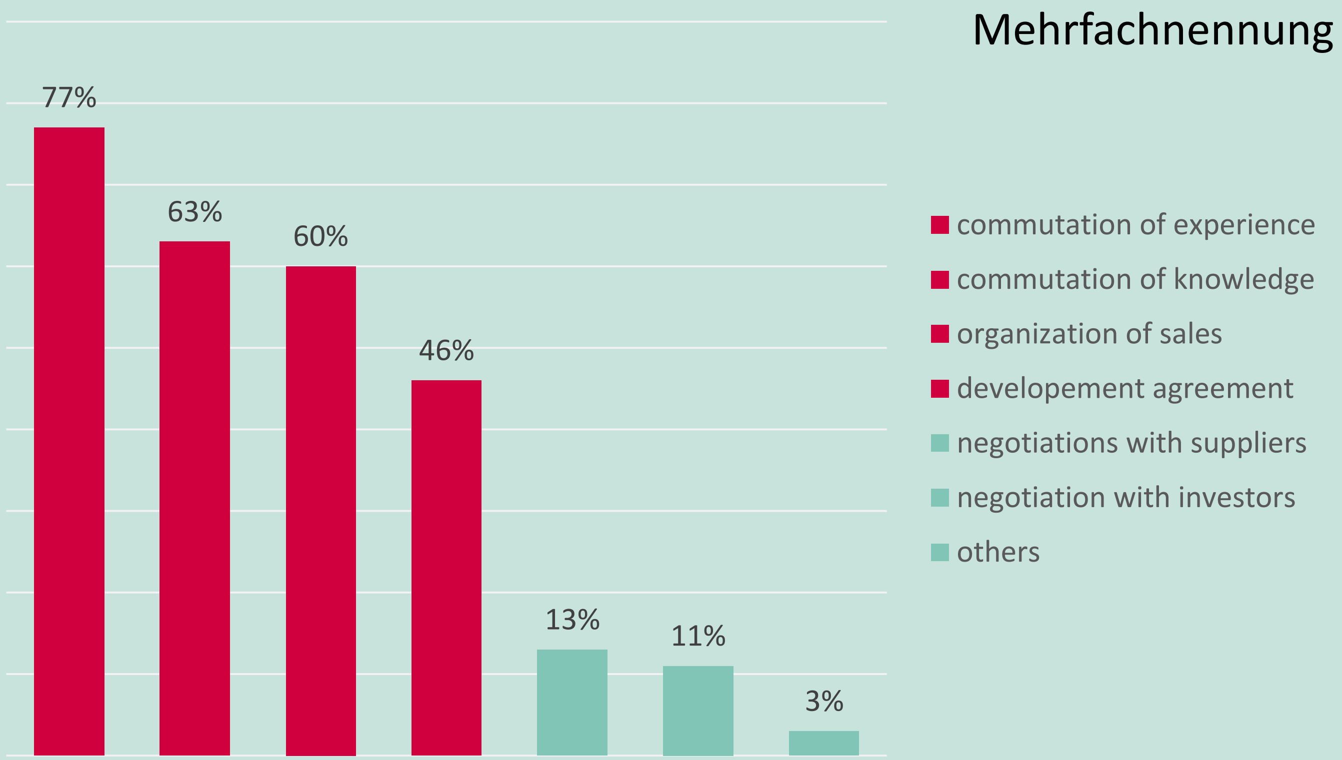


Multiple answers allowed n = 105

Explanation:

Yet almost half decide right away on a corporate structure allowing for those funds.

Networks –usage

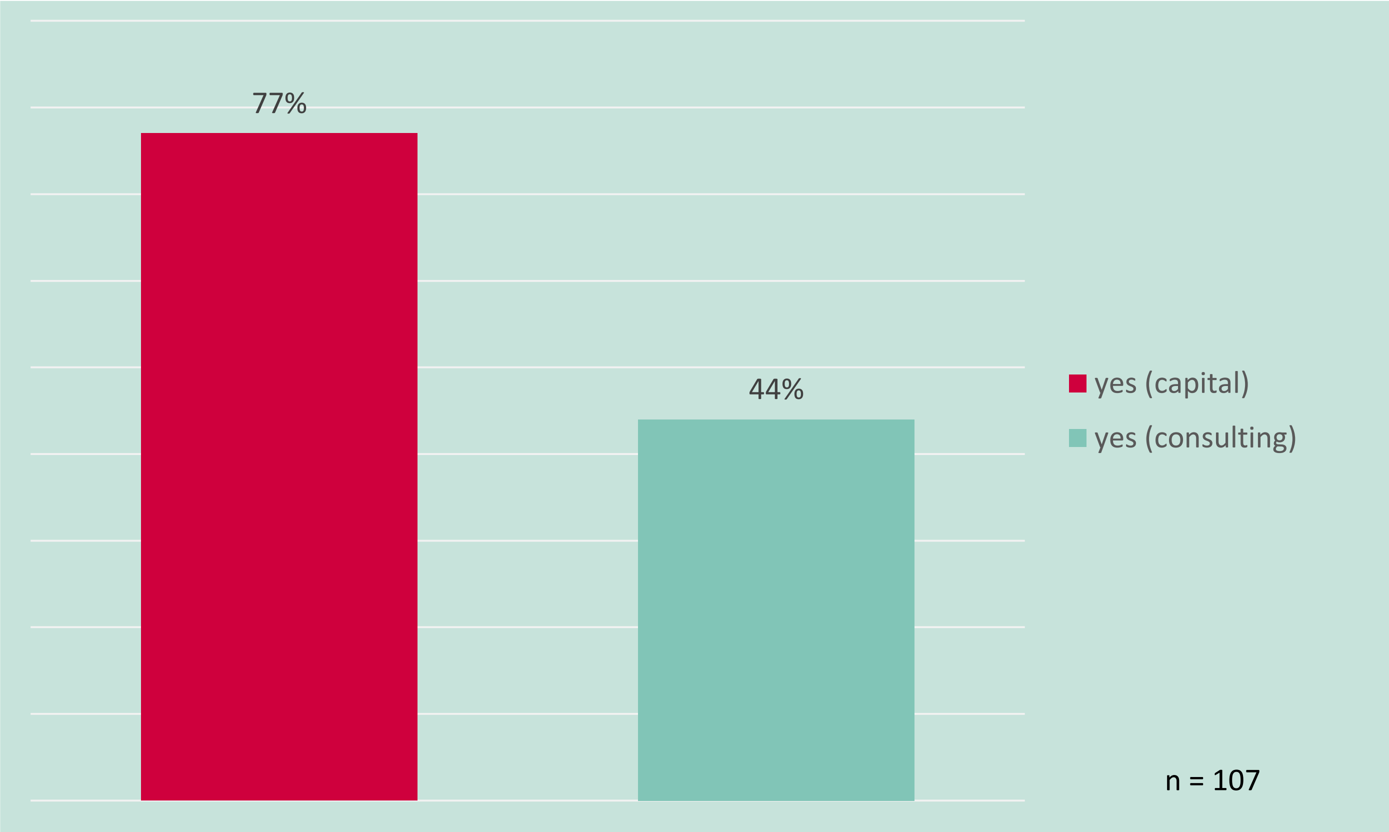


Multiple answers allowed n = 105

Explanation:

Informal experience and knowledge sharing is mentioned by 77 %, but formal Sales and R&D-cooperations are both mentioned by 60% of the startups.

Support programs by local, state and national institutions



Explanation:

44% of the startups have seeked advice and a third benefitted from financial support. Requirements, intransparency and lack of know-how by persons in charge was perceived as the biggest challenge.

Location

Explanation:

Startups are fairly loyal.

- 70% see Stuttgart as the preferred place to run their business due to access to potential employees and customers.
- Still, 80% see areas for improvement, in regard to support programs and the war for talents with large corporeations.

Implications and interpretation

The results of the study were discussed with approx. 200 stakeholder from the startup community in Stuttgart providing the following inputs:

- The major actions points to support acceleration are experienced mentors and networking with both startup and established companies
- Access to financing is a strong nice-to-have, but should not be forced upon startups
- Residency should be an option, but not a requirement
- Overall founders would like to have a „leadership development program for foundes“ with additional cafteria stype benefits and a nice place to hang out…
- On the other hand the fact that a high percentage of startups never scale (and might not even try to do so…) could imply that accelerator programs should at least expose startups to this option.

Limitations and discussion points

- The question/paradox of the TIME-Industry remains: there is a strong entrepreneurial spirit, but yet little scaling happens once the startup has been founded.
- Secondly while pivoting is seen as a key to success (Hermann 2012) only few startups are willing to do so.
- Thirdly relying on equity might reduce risks and thus chances of survival, but might reduce growth opportunities.
- Overall the industry is rather „concept/creativy“-intensive and less capital intensive. Overall it is open if the results also apply for more capital intensive industies.
- Last but not least, (local) culture might also play a role. Overall, founders in the Stuttgart region are older, more experienced, there are fewer of them, but they are more successful than in other regions with a higher survial rate.

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  - Customer Development and Validation
  - Business Models and Business Model Generation,
- Management Wargaming
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