SELECTION APPROACHES FOR CREATING START-UP COMPANIES

PRÍSTUPY PRE VÝBER START-UP SPOLOČNOSTÍ

Ľubica KOVÁČOVÁ

Abstract
The establishment of startup businesses is an important tool for innovation development. This refers to businesses designed to deliver a new product or service under conditions of extreme uncertainty, forming or applying new technologies and exploring new markets and aspiring to rapid growth. This paper presents selected rules for creating startup based on examples and publications from reputed consultancy organizations: Startup Guide created in The Harvard University (OTD), The Lean Startup approach and KPMG Startup guide.

Key words
Innovate start- up, creating start-up

Introduction

For developing and building innovative ecosystem countries is necessary to establish a number of key support instruments that can have a positive impact on accelerating ecosystem building innovative business. One is the formation acceleration programs that are extended mainly in the USA. Support for start-ups is implemented tools such as start-up incubators and start-up accelerators, which are implemented start-up programs. The main objective of both institutions is to help start-up companies particularly in the initial phase of starting their business. [2]

The phenomenon of these institutions has spread rapidly around the world and in many countries these institutions are also supported by grants or support programs from the state.

Definitions of a start-up are variable, however, agree on the principle of innovation and a precondition for rapid business growth.

Eric Ries [5] defines a start-up as an organization dedicated to creating something new under conditions of extreme uncertainty**.** A start-up is too a human institution designed to deliver a new product or service. The word institution connotes bureaucracy, the real stories of successful start-ups are full of activities that can rightly be called institution -building: hiring creative employees, coordinating their activities, and creating a company culture that delivers results. The newness of a start-ups product or service is also a key part of the definition. Preferred is the definition of product, one that encompasses any source of value for a set of people who voluntarily choose to become customers. In every case, the organization is dedicated to uncovering a new source of value for customers, and cares about the actual impact of its work on those customers.

1. The phenomenon of acceleration programs and start-up incubators

Acceleration programs offer a broad portfolio of services, options and opportunities to gain experience, knowledge, contacts, as well as financial subsidies for the development of innovative products, finding customers, internationalization of business, etc.

According to the study "The Start-up Factories" [1] accelerator program is defined as a method of incubation of technology start-ups, which is controlled by investors and successful technology entrepreneurs.

The accelerator programme model comprises five main features. The combination of these sets it apart from other approaches to investment or business incubation:

- An application process that is open to all, yet highly competitive.
- Provision of pre-seed investment, usually in exchange for equity.
- A focus on small teams' not individual founders.
- Time-limited support comprising programmed events and intensive mentoring.
- Cohorts or 'classes' of start-ups rather than individual companies.

The accelerator programmes are notable for the high quality of mentors and start-up teams they work with and the value they add to companies. Demand for accelerator programmes outstrips supply. Limits on their growth include the pool of high quality mentors, opportunities for acquisition by large companies or stock market flotation and competition for start-up talent with other careers.

Over the past six years, a new method of incubating technology start-ups has emerged, driven by investors and successful tech entrepreneurs: the accelerator programme.

The main supporters of these types of acceleration programs are business angels and venture investors (development) capital (venture capital), because they constitute a key major frontier in selecting capable of start-ups, talent and a link to mentors and other strategic resources. These links in the acceleration program have subsequently positive effect on the local ecosystem of the region in which the act, while providing a reference point for placing the, the performance and build trust between the founders, investors and other stakeholders.

The emergence of incubators and accelerators are shown worldwide as one of the best institutional tools support innovation in recent years, support innovative business creation and start-ups.

The development of incubators directs from venture capital to another type of incubators, and thus are called corporate incubators (incubators established firms).

Many countries are trying to promote the internationalization of their start-up companies through the creation of international mentoring or acceleration programs.

Examples

StartupHighway is 13 week intense acceleration program that combines €14K in funding, business advice from international fleet of mentors, access to follow up funding, markets and more [3]. Each start-up will receive up to €14,000 in seed funding - €2,000 for the idea and €3,000 for each founder (for up to 4 founders), in return it will ask for 7.5% of the company's equity. In addition to funding each start-up will be provided acceleration program, business development support, many other perks including with free office space at grounds at incubator.

StartupHighway is designed following the example of world's best acceleration practices. The program will consist of three distinct stages.

SHAPE. The first 5 weeks of the program will be dedicated to mentoring. One-on-one mentoring session will provide start-ups with valuable advice on how to best shape or reshape their business model in order to build a successful business. Check out an international mentor fleet. Mentorship will be tailored to start up needs and will also include recurring mentoring from most relevant mentors.

BUILD. The following weeks will be dedicated to building a business model and a working product. At this stage the start-ups will be guided by a team of mentors and will be encouraged to reach out to potential customers. More advanced teams will focus sales or expansion depending on their own readiness.

SELL. The last stage will include crash course in raising capital, workshops to prepare the start-up with all essentials and beyond tools and documents, including extensive pitch training. The program ends with a set of pitching opportunities at various geographies in Europe and beyond, known as "demo days" during which the participating teams get to pitch their investment cases to investors.

Seedcamp program is based on a family relationships, and like all families, it has a set of values which do best to live up to. [4]

1. Think 'Founders First' – Our founders are our family, treat them as such.

2. Be transparent – When in doubt, put all your cards on the table.

3. Have a coaching mentality – Approach situations with a mind-set of being open to learning or in helping others to learn.

4. Our community is important – Wherever possible, bring people together that can help each other.

5. Give wherever possible – Whether it simply be your time, empathy, or knowledge, give wherever possible.

6. Results matter – Efforts are nice, but what matters in the end is whether you shipped what you said you would.

7. Communicate often – Err on the side of letting people know what is on your mind. Isolation costs everyone time if you take a wrong turn.

8. Don't be afraid to screw up – Just admit you did, what you learned from it, and for goodness sake's don't do it again.

9. Get to the point, and do things expeditiously – Assess issues swiftly, be efficient in communicating, take action quickly wherever possible, but do not compromise on quality.

10. Keep things fun – take your duties seriously, and don't be afraid to have fun & be yourself.

2. Selection of approaches for creating start-ups

KPMG recognizes the importance of innovation and the growing value of connecting entrepreneurs and venture capitalists hubs around the world. In 2012 KPMG launched a global technology innovation centre to identify and evaluate the impact of future disruptive technologies. The centre connects leading technology thinkers including entrepreneurs, FORTUNE 500 technology executives, venture capitalists and KPMG professionals. KPMG have been committed to serving start-up companies around the world for many years. One of the tools to support the methodology start up is Start-up Success - A guide to growing your business [7].

As an example of the methodology were identified the key issues from venture capitalists viewpoint:

- Company, including the founders and their industry experience.
- Product or service, including features and benefits, product specifications and technical requirements.
- Management and technical teams, with an emphasis on the engineering talent, relevant experience, and entrepreneurial track record.

- Market opportunity and existing competitors.
- Sales and marketing strategy, including pricing and distribution.
- Development milestones.
- Financial information, including projected sales and profits, capital requirements, and exit strategy.
- Other capital already in the company, perceived valuation.
- Other advisors or consultants supporting your company.

Start-up Guide [6] created in **The Harvard University Office of Technology Development (OTD)** explores the potential of forming start-up companies around new inventions and platform technologies arising from their own research. Creating a start-up company, also known as a NewCo, is a viable and often attractive alternative to working within an established company. A NewCo can expedite the development and commercialisation of nascent technologies that satisfy unmet market needs and benefit the public good. OTD can: provide an initial sounding board for exploring start-up ideas, protect the intellectual property that is the foundation of the new company, make connection start-up with other to entrepreneurs, angel investors and venture capitalists, provide assistance with business planning and assist on competitive analysis, market assessment, and investor pitches.

***Start-up Process as describes in* [6]:**

- *Contact.* Discuss your invention and how to protect the intellectual property to decide whether a startup company is a suitable option.
- *Protect intellectual property.* Work with specialists to file a patent application on the invention before it comes public. A major asset of a start-up company is its intellectual property.
- *Seek input and network.* Identify a mentor and work with him or her regularly, network with like-minded entrepreneurs, review ideas with potential investors, and evaluate the commercial aspects with potential customers.
- *Plan the business.* Develop an understanding of the market potential, competition, funding needs, and path to productivity and profitability. Expertise is useful in providing guidance on competitive analysis, market assessment, and business planning.
- *Negotiate the licence or option agreement***.** Obtain a license or option agreement from Harvard to demonstrate to potential investors that the company has secured the rights to the technology.
- *Pursue funding.* Commercializing technology typically requires external capital. Introduce the company to venture capitalists, angel investors, and, perhaps, friends and family.

The Lean Start-up approach fosters companies that are both more capital efficient and that leverage human creativity more effectively. Inspired by lessons from lean manufacturing, it relies on "validated learning," rapid scientific experimentation, as well as a number of counter-intuitive practices that shorten product development cycles, measure actual progress without resorting to vanity metrics, and learn what customers really want. It enables a company to shift directions with agility, altering plans inch-by-inch, minute-by-minute [8].

The Lean Start-up provides a scientific approach to creating and managing start-ups and get a desired product to customers' hands faster. The Lean Start-up method teaches you how to drive a start-up - how to steer, when to turn, and when to persevere-and grow a business with maximum acceleration. It is a principled approach to new product development.

Too many start-ups begin with an idea for a product that they think people want. They then spend months, sometimes years, perfecting that product without ever showing the product, even in a very rudimentary form, to the prospective customer. When they fail to reach broad uptake from customers, it is often because they never spoke to prospective customers and determined whether or not the product was interesting. When customers ultimately communicate, through their indifference, that they don't care about the idea, the startup fails.

Eliminate Uncertainty. The lack of a tailored management process has led many a start-up or, a human institution designed to create a new product or service under conditions of extreme uncertainty", to abandon all process. Using the Lean Start-up approach, companies can create order, not chaos, by providing tools to test a vision continuously. Lean isn't simply about spending less money. Lean isn't just about failing fast, failing cheap. It is a complex philosophy and application specific tools for effective flexible business without waste. Work Smarter not harder. The Lean Start-up methodology has as a premise that every start-up is a grand experiment that attempts to answer a question. The question is not "Can this product be built?" Instead, the questions are "Should this product be built?" and "Can we build a sustainable business around this set of products and services?" This experiment is more than just theoretical inquiry; it is a first product. If it is successful, it allows a manager to get started with his or her campaign: enlisting early adopters, adding employees to each further experiment or iteration, and eventually starting to build a product. By the time that product is ready to be distributed widely, it will already have established customers. It will have solved real problems and offer detailed specifications for what needs to be built.

Develop a minimum viable product (MVP). A core component of Lean Start-up methodology is the build-measure-learn feedback loop. The first step is figuring out the problem that needs to be solved and then developing a MVP to begin the process of learning as quickly as possible. Once the MVP is established, a start-up can work on tuning the engine. This will involve measurement and learning and must include actionable metrics that can demonstrate cause and effect question. The start-up will also utilize an investigative development method called the "Five Whys"-asking simple questions to study and solve problems along the way. When this process of measuring and learning is done correctly, it will be clear that a company is either moving the drivers of the business model or not. If not, it is a sign that it is time to pivot or make a structural course correction to test a new fundamental hypothesis about the product, strategy and engine of growth.

Validated Learning. Progress in manufacturing is measured by the production of high quality goods. The unit of progress for Lean start-ups is validated learning-a rigorous method for demonstrating progress when one is embedded in the soil of extreme uncertainty. Once entrepreneurs embrace validated learning, the development process can shrink substantially. When you focus on figuring the right thing to build-the thing customers’ want and will pay for-you need not spend months waiting for a product beta launch to change the company's direction. Instead, entrepreneurs can adapt their plans incrementally, inch by inch, minute by minute.

Conclusion

Start-ups are known mainly from the examples of leading global companies such as Apple, Microsoft, and Google, which started business in the garage. It should be remembered that these attractive examples were created in a unique social economic and technological conditions. Currently there are other business models for start-ups. Create a start-up venture does not mean to start working in the garage. Start-up may occur at any place of business.

Start-up is not just a new product, but also the new institution, which specifically requires a new way leadership
The basic activity in a start-up is change ideas into products, measure how customers respond, and then persevere or change business. Successful start-up businesses should focus their processes to accelerate this feedback.

This contribution is the result of the project implementation: VEGA 1/0879/13 Agile, the market adapting business systems with highly flexible corporate structure

References

[1] THE STARTUP FACTORIES http://www.startupfactories.eu/about
[2] ŠVAČ, V.: Štúdia o inovatívnych nástrojoch podpory výskumu, vývoja a inovácií. Vydavateľ: Národná agentúra pre rozvoj malého a stredného podnikania, Bratislava 2013
[3] STARTUP HIGH WAY http://startuphighway.com/en/page/the_program
[4] SEED CAMP http://seedcamp.com/our-values Our Values
[5] RIES, E.: The Lean Startup How Today's Entrepreneurs Use Continuous Innovation to Create Radically Successful Businesses, Publishing Group 2011, ISBN-13: 9780307887894, 366 p.
[6] STARTUP GUIDE www.techtransfer.harvard.edu/guidelines/startupguide/OTD_Startup_Guide.pdf
[7] STARTUP SUCCESS- A guide to growing your business. 2013 KPMG International, NDPPS 223071
[8] THE LEAN STARTUP METHODOLOGY. http://theleanstartup.com/principles

Contact address

Ing. Ľubica Kováčová
Technical University of Košice,
Faculty of Mechanical Engineering,
Department of Automotive Production
Mäsiarska 74, 040 01 Košice
E-mail: lubica.kovacova@tuke.sk