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Practical Application of Life Cycle Theory in Startups

Monika Burżacka
Warsaw University of Technology, Branch in Płock, Poland

ABSTRACT

Theory shows many different approaches to life cycle models existing in literature with differentia number of stages. There is therefore no one universal approach to the issue. Regardless of that, however, most of them agree, that knowing life cycle of the company provides an opportunity of effective management. Thanks to that entrepreneurs are able to predict the future and successfully use the tools of optimal management. Unfortunately, typical to life cycle model doesn't work with startups, as that group of companies are not stable systems. Startup is a very fast process of setting an idea in motion with no guarantee of success. Entrepreneurial research must be fast and flexible on each stage of growth where be strategy, structure, decision-making, but also organizational, administrative, marketing issues arise through the stages strategy, structure, decision-making, organizational, administrative, marketing issues arise import ant, sometimes crucial. In the environment of risk, instability there is crucial to use dynamic management strategy and Lean Startup meet expectations.

KEYWORDS

Startup Life Cycle (SLC); Managing risk; Start-up strategy.

1. Introduction

The knowledge of life cycle of the company provides an opportunity of effective management, where that entrepreneurs are able to predict the future and successfully use the tools of optimal management. Unfortunately, theory shows many different approaches to life startups' cycle models existing in literature with differentia number of stages. There is therefore no one universal approach to the issue. Additionally, the typical life cycle model doesn't work with startups, as that group of companies are not stable systems. As we know, startup is a very fast process of setting an idea in motion with no guarantee of success. Entrepreneurial research must be fast and flexible on each stage of growth where be strategy, structure, decision-making, but also organizational, administrative, marketing issues arise through the stages strategy, structure, decision-making, organizational, administrative,

* Monika Burżacka, PhD, Warsaw University of Technology, Branch in Płock, Poland, contact: +48 517 771 112, email: monika.burzacka@gmail.com

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2. Startups' Life Cycle Theory (SLCT)

The process of management of a startup companies is already conditioned by its specificity reflected in their definition. The definitions existing in the literature is not exact (Zelek 2013:7). From a formal point of view, these are firms have been already registered that operate on a small scale or a while before sales on a larger scale. The most often this is a micro or small enterprise. These are certainly young companies in the early stage of their development.

On the other hand, Reiss (2011) describes startup as a new operator existing in extreme uncertainty that refers mainly to unstable needs of potential customers. The entrepreneur creating start - up knows the needs of customers, but never can be sure whether the resulting product, the service will meet their expectations.

Another approach present Wagneri and Sternberg (2004), who determine the company start- up as a new company, founded by the entrepreneur, in order to maximize usability. Economists say that the main motive for the creation of start – up is to achieve optimal profit.

All the mentioned approaches have common denominator. Definitely, startup and its process of development is dynamic, nonlinear and unpredictable. Bygrave (1989) suggested that chaos theory can be applied to the startup or new product development process and it never achieves the type of equilibrium point, so a new startup constantly creates new order.

Eggers, Leahy and Churchil (1994) noticed that 30% of businesses don't grow in progressive and way determined by life cycle theory. That was also confirmed by Slevin and Covin (1998) who found that this phenomenon concerns even more than 40% of businesses. While development of a new startup is subject to varied, inhomogeneous, dynamic, and complex phenomena, theories of the developmental stages of startups fail to account for the dynamism of this process.
Life cycle theory, that regards organizations as stable systems that can achieve a state of balance and fails in case of startups. Startup is a very fast the process of setting an idea in motion with no guarantee of success. Entrepreneurial research must be fast and flexible.

That's some kind of creation not equilibrium confirmed by: Bygrave (1989), Mckelvey B. (2004) or Eggers, Lehey and Churchill (1994).

Also Tsai and Lan, in their research confirm that although the future cannot be predicted, a vision can provide the members of an organization with a direction inspiring effort and teamwork. A vision can also guide the actions of managers. Entrepreneurs should maintain a flexible, open attitude towards all market opportunities and niches. They should grant members decision-making authority and autonomy, encourage them make experiments, and be tolerant of their mistakes. Lean startup management method created by Eric Ries after Steve Blank may be accurate in such circumstances. If entrepreneurs can use new methods to manage startups, they will be able to maximize their chance of success.

Summing, it can be stated that startup are organizations of dissipative structures, always in a state of imbalance, acting in chaotic and unpredictable environment where the most import ant rule is the change. There are

constantly new opportunities that offer a chance of discontinuous rapid growth. In such conditions, entrepreneurs can rely on their intuition, however, to guide the actions of other members of the organization and maintain flexibility with regard to future development. However, startups are diversified and complex in nature, these entities have their lifecycles presented in figure 1.

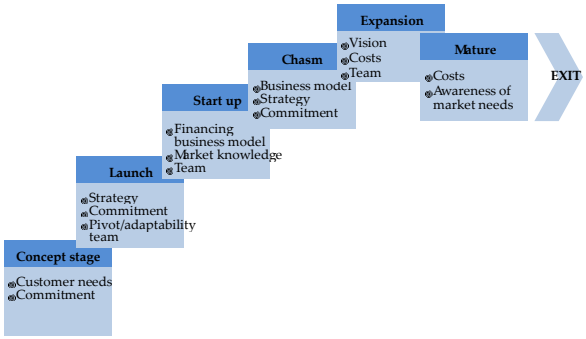

Figure 1. Lifecycle of startups

Although some exceptions exist (see, for example, Matthews and Scott 1995; McGrath and MacMillan 2000), the prior literature generally contends that business planning offers little advantage to new venture founders (Bhide 2000; Carter, Gartner, and Reynolds 1996). Arguing that planning interferes with the efforts of firm founders to undertake more valuable firm organizing actions to develop their fledgling enterprises, the extant literature views business planning as a form of administrative behavior' that is harmful to new venture creation (Bhide 2000). Instead of engaging in business planning, the literature generally argues that firm founders should move directly to action-buying facilities and equipment, seeking external capital, and initiating marketing and pro-motion (Bhide 2000, Carter et al. 1996).

According to startups, specially tech startups have two main stages: a great idea and a spectacular payoff. In reality, the startups have a lot of work to do between those points.

For most startups that reach maturity, there are six distinct stages, each with specific needs in terms of growing internal competencies, building an adviser team and creating a scalable infrastructure to support growth and get to the finish line – whether that's running as a profitable standalone business, going public or being acquired.

In general the first stage is for each start up is the same, it's about building the first version of your product or service and try to validate your customer's need. The startup is just a thought or an idea.

Second stage is launching that's the time of matching the business opportunity with skills, experience, passion and deciding on a startup ownership structure, finding professional advisors and buiding first strategies. With no proven market or customers and financing, there is no confident of success. Generally, this start up stage is the moment of verification of accepted business model.

The third stage is about growth and efficiency, because we know the need is there and sales can be accomplished, it's time to be as efficient as possible in order to service the customer.
According to statistics, the first three stages are the riskiest onesof the entire lifecycle. In fact, it is believed that mistakes made at this stage impact the company years down the line, and are the primary reason why 25% of startups do not reach their fifth birthday.
The fourth stage is chasm understood as aggressive investment before beeing a important player on the market. The biggest challenge for entrepreneurs in this stage is managing the time – dividing the time between a whole

new range of demands requiring your attention – managing increasing levels of revenue, attending to customers, dealing with the competition, or accommodating an expanding workforce.

Expansion means conquering new markets and offering new products or services to existing markets that needs additional funding sources like: licensing, banks loans, profits, investors and government, new investors and partners. When this stage is over, the startup becomes formal and matures, and can therefore scale and grow with the market and guard it's position.

Mature – comfort stage where sales and profits become stable, however competition remains fierce. Eventually sales start to fall off and a decision is needed whether to exit or expand the company. Generally, businesses in this stage often see rapid growth in both revenue and cash flow as the blueprint has now been established, but be warned about getting too comfortable. In business, if you are not moving forward you are moving backwards, and without a constant, almost nervous itch or desire to expand, complacency can set in, and you might get caught off guard. Having a successful business model is undoubtedly an advantage, it is not a guarantee that it will work elsewhere within other markets, or that new offerings will result in the same success. The business graveyard is littered with organizations that took on too much and failed. The point is to take on new challenges to constantly expand, but measure the risk and do the best to secure the company for all eventualities.

Each stage in the SLC is different because of factors like: strategy, structure, decisionmaking, but also organizational, administrative, marketing issues arise through the stages. Definitely the number of stages and length of the startup life cycle depend on the range of factors that can be different for each branch. This issue may be the subject of further research.

Not all businesses will experience every stage of the business lifecycle, and those that do may not necessarily experience them in chronological order. For example, some businesses may see an enormous growth right after startup, and the founders may decide to cash out right away, jumping straight to that exit" stage.
For many companies, though, there will be some sort of resemblance to the stages, and awareness may help you anticipate what is coming next and how you can best prepare yourself and your team to maximize your chance of success. Making the right decisions at each stage is another thing altogether, however, and that will require your usual mix of gut instinct and practical business sense.

According to the recent Startup Genome Report (2017), an estimated 90% of those startups that fail do so primarily due to self-destruction. It was their founders' own bad choices or lack of preparedness rather than so-called "bad luck" or market conditions that were out of their control. Understanding your position in the business lifecycle just might help you stay a bit ahead of the game here and defy the odds, as you anticipate the potential challenges and obstacles that are upon you or are on the way depending on what phase you are in or about to transition to.

The company's life cycle theory has been already described in literature deeply. Gradually we can observe modyfied theories in that area that can be the basis for the analysis of current and future situation of the company. Definitely, they cannot be a panacea for all the problems in the various stages of development of the company, but may provide a clear diagnostics tool to assist in analyzing a firm's present situation. The experience provides new perspective from which we can observe the development of new business startups, and allows us to discover that the development of new startups is indeed a nonlinear but definitely chaotic process.

3. Management Strategy for Fast Growing Startups

The high risk of failure for new ventures is a major concern. More than half of business startups never survive more than 5 years and in highly turbulent markets less than half survive to reach their 3rd birthday. As it was emphasized many times in this article, a startup is a company designed to grow intensively Fast In the environment of extremely high risk. In the literature we can find a plenty of tips how to realize a business promotion, marketing, and sales strategies. However, when it comes to strategic planning for running an startup company, the entrepreneurs are often found groping in the dark.
Among proposals of management strategies, most of them fail. There is one, that seems to be successful, called Lean Startup (Ries 2008). A core component of Lean Startup methodology is the build-measure-learn feedback loop (Figure 2).

It helps to accelerate the process of growing, meant as getting a desired product to customers' hands faster by using data loop. The first step is figuring out the problem that needs to be solved and then developing a minimum viable product (MVP) to begin the process of learning as quickly as possible. It may be beneficial for entrepreneurs not to use all resources at once, but instead try out a scaled down version of the business first and await market feedback before engaging more resources.

Figure 2. Lean startup loop

Once the MVP is established, a startup can work on turning the engine. This will involve measurement and learning and must include actionable metrics that can demonstrate cause and effect question. Lean star-up strategy helps to create order not chaos by providing tools to test a vision continuously.

4. Conclusions

Theory shows many different approaches to life cycle models existing in literature with differentia number of stages. There is therefore no one universal approach to the issue. Regardless of that, however, most of them agree, that knowing life cycle of the company provides an opportunity of effective management. Thanks to that entrepreneurs are able to predict the future and successfully use the tools of optimal management.

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