Survival 101: Key steps for the first year in business

By Alexander Moiseev

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Starting a business is one of the toughest challenges a person can face. The US Bureau of Labor Statistics found that between 39% to 45% of new businesses fail within the first four years. The first year, in particular, is one of the most critical for any company because for these 12 months the company needs to put all new processes in place.

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I was in a similar situation when I joined the company that was only beginning to become a global player in the information security market.

I'll share a few of the most common reasons why new companies fail, and ways to avoid them:

1. Realise that entrepreneurship is not a walk in the park

The perception that entrepreneurship is fun, laid-back and does not require hard work is a myth.

A lot of new businesses start with high expectations that they will receive a big investment or will be acquired by a rival. But little consideration is given towards how they will become profitable.

Some entrepreneurs feel very confident that their idea will be a success, yet when they fail, they are unable to turn things around. Many people have the wrong idea of entrepreneurship in their minds.

In the real world, to make the initial idea take off they need to put enormous efforts and jump to understand clients' needs, prototype the product, think of who they can sell it to and how, establish a sales and marketing channel — along with thousands of other tasks.

Studies reveal that successful startups are mostly launched by people aged between 42 and 45. Of course, while this does not mean that a 25-year-old is guaranteed to fail, it suggests that entrepreneurship demands discipline, hard work and experience.

2. Define your value proposition

Look at your product and think about the value it can bring to a customer.

Is there only one unique selling point (USP), or can it be used for different purposes? Is it valuable to a range of different audiences? The risk here is that if your idea about the product value for a customer appeared to be inaccurate, it can be too late to amend it.

To make this more clear, here is an illustrative story about a startup that Kaspersky invested in.

The team developed a technology combining NFC chips and blockchain that they initially positioned as a tool to help clothing brands, stores and consumers check the authenticity of items. However, they later realised another, even better way to use this technology. They did not need to change the product - they simply added another usage scenario as a means for communication between a brand and its clients. This allowed them to re-position the product to a wider range of customers who can use these NFC chips to share information about goods, news and offers, with their clients - which is what brands are really looking for besides mere anti-counterfeit measures.

3. Start testing your idea: ask for feedback and adjust your proposition

In some respects, startups do not greatly differ from enterprises.

In today's highly competitive landscape, they both need to invent new products and continuously test ideas until they become profitable. The big difference is the number of resources they can invest in research and development.

Startups often face challenges because they can quickly run out of cash. Being rushed, they make decisions based on gut feeling but this leads to implementing the wrong strategy and poor choices around how they convey their value proposition.

This teaches us never to ignore the feedback from potential partners and customers. Find out exactly what they want from your products in order to make them more appealing. Be ready to test five, ten or even fifteen ideas before moving to the next stage of product development.

Sometimes, it is not necessary to invent something extraordinary, just improve something that already exists.

For example, Casper, a startup producing matrasses, decided to sell them directly to customers and eliminate extra charges. In March 2019, Casper raised $100 million in funding and investment and has gone on to become one of the fastest-growing consumer brand operating in the US and Canada. Implementing this sort of strategy can help to reduce costs for customers and generate brand engagement, trust and loyalty.

4. Create an effective business plan and financial model

A well-drafted and well-considered business plan demonstrates how your startup is going to generate money and become profitable.

If a startup sets out just its product development strategy without any sales tactics, potential investors will demand to know when the business will become profitable. Having an idea and making it a tangible product is a great first step. There must also be a plan for selling it, and it can be then changed over time.

Even if earnings are minimal, to begin with, it is still better than nothing coming through. It encourages investors to part with their cash because it shows the potential of the final product.

A well-thought-out financial model should help you control your budget and ensure the business does not run out of money in its early stages. While financial models seem daunting to those who have little accounting experience, there are plenty of templates and tools available to help you. You can, of course, always outsource this stage to another firm if you prefer.

5. Understand your go-to-market strategy

Think about who your potential customers and audiences are, then decide how you are going to reach them in an effective way.

Resources of startups are often limited, so it is imperative to find a way of reaching potential customers quickly with a message that encourages them to buy a product. Even the biggest of global brands can get this wrong.

For example, search engine Google tried to launch Google Glass – a pair of smart glasses that would keep people online through a set of lenses – but simply did not understand why people really need this technology. This led to increased costs and a lack of demand amongst potential customers.

Especially in a market you have limited experience in, you can go through a partner eco-system to reach your customers. To do so, it is important to effectively communicate what the value proposition is to your partners. It is all about encouraging and motivating them to work with you.

6. Assemble a team according to the startup's needs

Entrepreneurs cannot be expected to do everything by themselves.

In fact, it has been discovered that 80% of businesses that hire additional employees survive their first year. However, it isn't effective to hire people simply to fill stereotypical roles found in small businesses. Instead, focus on hiring the people that are most needed.

Likewise, if it isn't essential for the business to hire for a specific role – for example a social media executive – wait. Additionally, while every employee has a key role to play that allows them to carry out their expertise, they should not be limited by it. It is important to recruit chameleons. That way, people cannot only work effectively in their assigned teams but also work on different aspects of the business to help the startup remain efficient.

The recruitment process can be difficult in any business, but especially in startups. How can an employer get the balance right between hiring experienced people and also ensure there are enough people in the business with fresh enthusiasm and desire? There is no formula anyone can rely on.

So, it is best to focus on forming a team that allows you to achieve your current goals and issues. The next recruitment phase with more of an eye on the future can wait until when the business begins to be successful.

Behind every startup, there are people with human emotions, concerns and dreams. In addition to all of the technical and pragmatic advice given above, there is one more very important thing all entrepreneurs must consider.

Startup founders and their teams need to see the ultimate goal they are trying to achieve. They may burn out and get bored with what they are doing because they cannot achieve their career goals and are sucked by a monotonous routine. So, they should learn to set goals, both personal and business ones. They should then create a plan that clearly explains how to achieve them, so they can find inspiration in their work and personal life to keep themselves going.

Of course, there's a difference between knowing the path and walking the path. In reality, businesses always need to make adjustments to the initial plan.

Nevertheless, this is the essence of entrepreneurship and if you’re throwing yourself into a startup, you should be prepared.

ABOUT THE AUTHOR

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