UDC 334.025

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STARTUP MANAGEMENT ACCORDING TO THE STAGE OF ITS LIFECYCLE

МЕНЕДЖМЕНТ СТАРТАПУ В ЗАЛЕЖНОСТІ ВІД СТАДІЇ ЙОГО ЖИТТЄВОГО ЦИКЛУ

ANNOTATION

In the presented article we have considered different viewpoints on the definition of startup, identified the features of this type of enterprise, found the difference between startup and a small business. In addition, we have considered different models of startup management with a comparative analysis, as well as the company's life stages with relevant management actions. In our research we studied approaches to startup management, which are practically used by a number of successful startups. The process of investing in startups, their types and stages have been also considered in the article.

Keywords: business, models of management, funding, administration, lifecycle, customer, investment, leader.

АНОТАЦІЯ

В представленій статті ми розглянули різні погляди на визначення стартапу, виявили характерні для цього виду підприємств риси, встановили різницю між стартапом і малим бізнесом. Крім того, нами було розглянуто різні моделі менеджменту стартапу з порівняльною характеристикою, а також стадії життя компанії з відповідними діями керівництва. У роботі були вивчені підходи до менеджменту стартапу, що були практично використані низкою успішних стартапів. Також був розглянутий процес інвестування у стартапи, його види та стадії.

Ключові слова: бізнес, моделі менеджменту, фінансування, управління, життєвий цикл, інвестиції, клієнт, лідер.

АННОТАЦИЯ

В представленной статье мы рассмотрели разные взгляды на определение стартапа, обнаружили характерные черты для этого вида предприятий, установили разницу между стартапом и малым бизнесом. Кроме того, нами было рассмотрено разные модели менеджмента стартапа со сравнительной характеристикой, а также стадии жизни компании с соответствующими действиями руководства. В работе были изучены подходы к менеджменту стартапа, которые были использованы на практике рядом успешных стартапов. Также был рассмотрен процесс инвестирования в стартапы, его виды и стадии.

Ключевые слова: бизнес, модели менеджмента, финансирование, управление, жизненный цикл, инвестиции, клиент, лидер.

Problem. Startups in Ukraine began to appear recently, so there are currently a few studies in this area. In addition, most national startups are connected with information technologies and actively work not with Ukrainian, but overseas partners and investors. Some Ukrainian startups fail because of poor management and incorrect understanding of the essence of the startup and the processes of its creation and development.

Review of scientific literature. The study of startups is quite relevant in the modern world and requires more thorough consideration. Many publications and scientific articles were written by a successful entrepreneur, founder of startups and teacher Steve Blank, as well as his students, Max Marmer and Eric Rice. A useful source for research on the startup is the work of Peter Till and Blake Masters. Various aspects in the study of this topic were considered by E. Chazov and I. Sitnik.

The aim of the research. Taking into account the orientation of startups for foreign partnerships, it is necessary to study patterns and methods of managing a startup on the basis of the experience of successful foreign managers. The aim of the article is to consider the concept of startup and identify certain actions and behavior of managers, depending on the stages of the company's lifecycle.

The main material of the research. In recent years, startups, young rapidly growing commercial companies, appear increasingly frequently in Ukraine and abroad. Steve Blank, famous entrepreneur, founder of startup and lecturer claims, startup is an organization formed to search for a repeatable and scalable business model [1]. Eric Ries, an entrepreneur and author of methodology Lean startup defines startup, in turn, as a human institution designed to deliver a new product or service under conditions of extreme uncertainty [2]. Based on these definitions the characteristics of startup are: innovativeness, rapid growth, temporariness and uncertainty.

Though tech companies are called startup more often, it doesn't mean startup must be focused on technologies. Many tech companies had been opened as startup, but then they had multimillion fund and substantial number of employees, so now they cannot be called startup [3].

However, it was felt that startup is rather a special culture and atmosphere than correspondence to particular criteria. Some entrepreneurs claim that company of different sizes and ages can remain as startup [2]. Therefore, we have to define clear features of startup.

It is thought, that the enterprise, which was purchased by bigger company or enterprise, has more than one office, which income is more than 20 million dollars, has more than 80 employees, executive board consists of more than 5 people and its founders sold own shares, can't be considered as startup anymore [2].

In accordance with Alex Wilhelm's rule "50, 100, 500" startup cannot be a company that [4]:

- has income more than 50 million dollars (12 months)
- has 100 and more staff
- costs more than 500 million dollars (stocks or other forms)

Furthermore, it's important to determine the difference between startup and small business. If small business strives for profitability and long-term outlook, startup aims at growth and big income [5]. In contrast to small business, that can exist long time, startup has a short life, because it is usually acquired by bigger company. In addition, small business is developing locally, but startup usually has a goal to enter the international market, startup offers innovations, introduces new ideas, at the same time small business can work with earlier used model.

Startup as well as small business requires external investment. Small business finds investment by taking bank loans, using its own funds and receiving funding from private investors [6]. However, startup financing has its own special features. Startups receive investments related to high risk, investments from volunteers and business angels, etc.

Although there is a big difference between startup and small business, they have some common traits such as small amount of employees, high risk and demand of investments. According to clear difference in their creation the management of these models differs too.

It is necessary to define various options of startup management. Consider popular models of startup management such as: Steve Blank Customer Development model, startup stages of Max Marmer's Genome and Financing model.

The main idea of Blanc's model is an entrepreneur's hypothesis test regarding his product. It focuses on creation of client base for product or service that startup offers. With help of this model the level of risk decreases and level of certainty increases. Priority task is understanding of problem that must be solved and then creation of product. When all attention is focused on invention and only then on seeking clients, startup often fails. Steve Blank suggests to follow 4 steps in startup creation and development [7]:

- Customer discovery (testing hypotheses and understanding customer problems and needs)
- Customer validation (developing a sales model that can be replicated and scaled)
- Customer creation (creating and driving end user demand to scale sales)
- Company building (transitioning to a well-functioning company).

We can see that according to Steve Blank model testing of idea is more important than a good business plan. Entrepreneurs often forget that they make product for others and testing of idea with real clients can therefore increase the chances of success.

Next model belongs to Max Marmer, founder of startup "Genome" and Steve Blank's student. Marmer model is based on Blanc model, but differs in hat it is focusing on product. Its specific stages are [8]:

- Discovery (validating whether startup is solving a meaningful problem and anybody would be interested in product)
- Validation (validating whether people are interested in product through the exchange of money and time)
- Efficiency (improving business model and efficiency of customer acquisition process)
- Scale (driving growth aggressively)
- Profit maximization
- Renewal or decline

At the research stage the team of founders is formed, interviews with customers are conducted, a value proposition and pilot model of product are created, team joins an incubator or accelerator, friends and relatives invest in the startup, the first mentors and advisers appear. This stage lasts 5-7 months.

Detailing of characteristics, increasing number of users, implementation of metrics and analytics, seed financing, recruitment, strategy changes (if it is necessary), first paying customers and product that meets market needs are typical features of the validation stage. The duration of the second stage is 3-5 months.

At the efficiency stage the value proposition is improved, the user experience is overhauled, growth is achieved, repeatable sales process and / or scalable customer acquisition channels are found. Implementation of this stage takes 5-6 months.

The first significant venture financing, massive customer engagement, scalability improvement, recruitment of executives, process implementation and establishment of departments are inherent for the scale stage. It lasts about 7-9 months.

We will also consider startup life stages in terms of financing. The financial model includes following stages [9]:

- Seed investment
- Business angels' investments
- Venture funding
- Mezzanine financing and short-term loans
- Initial public offering

Seed investment is the first stage of the financing model, during which administrative costs take place, business plan and prototype of the product are created. The financing, received from business angels, goes to product development and customer engagement. Venture financing and subsequent steps are used for expansion and growth of organization.

An example of venture financing is Ukrainian company TA Ventures, which is engaged in investments in national startups, other CIS countries, the USA and Europe. TA Ventures manages a venture capital fund with an initial capital of $ 50,000,000. The company invests at the stage of seed investment and Round A with a capital participation over 25% and with an investment horizon from 1 to 5 years. The priority area for financing is IT, and sectors are e-commerce, online tourism, online financial services and mobile applications [10].

The comparative analysis of the startup management models is given in Table 1.

Summarizing the above information, we can determine the overall lifecycle of the startup, since the clear understanding of each stage and implementation of appropriate steps give better chance for successful development of the company. Startup lifecycle is divided into next stages: creation, startup launch, growth and management, expansion, maturity and possible exit from startup [11].

The stage of creation is a very beginning of the business life cycle, that is, the startup even before its official existence. At this stage it is necessary to evaluate the viability of the startup by finding advice and perspectives on the potential of business idea from different sources, namely from colleagues, friends, family, business associations or professionals in various fields. It is necessary to evaluate own forces, enabling market environment and financial capabilities.

Startup is launched when the business model is thoroughly tested. At this stage you can officially declare the creation of a startup. An important factor is the adaptability, that is, the improvement of your product, based on the feedback of the first customers. Sometimes it is necessary to make a lot of changes, but it is important to see a clear goal, because this stage is considered as the riskiest one.

At the growth and management stage startup needs a stable source of revenue and has to find new customers. The cash flow is improved and it helps to cover the constant costs. It is important to wait for a slow and gradual increasing of income. At this stage the greatest difficulties may arise with the management of growing money turnover, customer service, business competition, expansion of staff. It is important to hire the right personnel, namely, talented people with complementary skills. The head of the company should be involved in the recruitment process. The company's employees are increasingly taking on the responsibilities that the founders had before. At this stage the main task of the head of the company is management and giving orders, leading the team towards clearly defined goals.

At the stage of business expansion startup has a firm position on the market, employees work with tasks that the CEO does not have time for, because he is engaged in managerial activity. The founders of the startup reflect on the expansion of the company's geographical boundaries. The most important activities for this stage are the development and growth of the company, because with the sense of complete comfort and refusal to increase business the movement back occurs. However, we need to think carefully about the company's expansion, to identify the necessary resources, costs, potential financial turnover and accurate plan. Company must not forget about current customers and take into account the impact of changes in company on their service.

During the maturity stage and the possible exit from startup it will be useful to answer some questions such as whether the business is ready to grow and whether it has the opportunity to do so. At this stage company has a stable income and successfully cope with various tasks. So it's time to decide either company grows or leaves the role of a startup and sells business to a larger company. If the decision is taken for development of company, then it's time to hire a CEO, who can handle new challenges better. When the founders decide to sell the company, negotiations can also be a challenge.

Table 1

Comparative analysis of startup management models

Model	Stages	Focus
Steve Blank	• Customer discovery • Customer validation • Customer creation • Company building	Testing the idea; creating a customer base for a product or service.
Max Marmer	• Discovery • Validation • Efficiency • Scale • Profit maximization • Renewal or decline	Product validation and improvement.
Financial model	• Seed investment • Business angels' investments • Venture funding • Mezzanine financing and short-term loans • Initial public offering	Stages of startup financing and usage of funds.

However, not every startup goes through all stages of the lifecycle or in that order. Knowing the current stage helps to choose a right direction and define effective action steps.

Most investors agree that the main factor in the development of the startup is a team of its founders. They are people who develop startup from the stage of the idea to performing stage. Organizational leaders must choose particular methods of managing the company in relation to the certain phase of the business lifecycle.

At the first stage, creation or innovation, there are no clear rules, because the organization of business is low, but motivation and creativity are high. The startup exists or decays due to the leader's ability to demonstrate perseverance and dedication. Business focuses on startup creation, work with leaders-innovators, teams and first-time customers [12]. The manager must be familiar with the product and services that the company provides. The role of the leader is to use strategic thinking and look for customers, who are ready to support innovation. The enthusiasm and creativity of leaders can inspire others, but sometimes the leader may lose focus and lead the team in the wrong direction.

At the next stage when business begins to grow, the goal is an investment in increase of market share, using the overall growth of the market. The largest share of investment is for marketing and sales. The company's leader must be transformed into a sales expert. His main task is to make as many potential customers as possible. The manager must pay much attention to teamwork, giving team members the ability to perform their work at the best possible level.

At the third stage leader doesn't do functional tasks, his main responsibility is management. He must be able to help the employees to succeed, be a coach, mentor, strategist, who gathers a team of leaders, who will inspire and lead other employees. That is, the transition from an entrepreneur to a manager, who sets the direction and shares own experience and knowledge.

During the next stage leader has an administrative role. He must continually improve processes and existing systems, striving for maximization of efficiency and profit.

Conclusion. After investigation of a large array of information about startups, we can conclude that startup is a temporary company looking for a scalable, repeatable and profitable business model or the type of organization that creates a new product or service in a situation of extreme uncertainty. The features of the startup are temporality, innovation, rapid growth and uncertainty. Also, the startup, as well as any 'new product', has its own lifecycle, which is divided into stages of creation, startup, growth and management, expansion, maturity and possible exit from the startup. However, most investors agree that the main factor in the development of the startup is a team of its founders. They are people who develop startup from the stage of the idea to the functioning. Organizational leaders must choose particular methods of managing the company in connection with a certain phase of the business lifecycle.

In general, it can be reported that more and more young fast growing business enterprises – startups and leaders among managers who develop this innovation on the national and foreign markets appear in Ukraine.

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