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Building the High Growth Venture

An Exploratory Study on How to Build a High Growth Venture

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Abstract

Entrepreneurship is said to be the answer for job creation, but little explanation is offered on how to perform entrepreneurship. This thesis aims to reduce the gap by exploring how a high growth venture can be built.

In this paper the entrepreneurial process was explored through a comparative case study, examining five entrepreneurs who have repeatedly built successful ventures. First and foremost, this paper found that it is possible to create a model giving practical advice on how to build a high growth venture.

The paper found that the goal of the model was to find a product market fit, meaning that the product being sold was bought. But fit was found to exist in various degrees. For high growth ventures two factors of fit were commonly found optimized. They had one, a repeatable and scalable business model which delivered high value for customers. And two, a definition of the tiniest possible product which could be sold. In total these two factors were found to maximize margins which gave profit to fuel growth.

The model for building a high growth venture was found to optimize the fit in an iterative process revolving around the customer. When a sufficient fit was found the venture changed from performing exploration to exploitation of the fit, which meant high growth given a good enough fit.

Preface

This work on high growth ventures was spurred by the obstacles in my own venture limSIM, and is a part of my Master's thesis at the Norwegian University of Science and Technology (NTNU). The work has proven to be valuable as it has forced us to revisit several of our assumptions as we now better understand what is needed to reach high growth. The direct effect of this thesis were our first sale, with several planned for the fall 2011.

This thesis would not be possible without the help from Kim Joar Bekkelund who endured endless discussions which emerged as a result of numerous questions during the process. I would also like to thank my supervisor Prof. Alf Steinar Sætre for providing vital input and most of all for being flexible, making it possible to develop limSIM in parallel with this thesis.

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1 Introduction

The aim of this thesis is to explore how a high growth venture is built to commercialize an opportunity. This goal has increased in importance in a world with financial crises and rising unemployment rates. Norway is currently the exception, but with the expected decrease of income from oil production the same gloomy future can be envisioned here as well.

Entrepreneurship has emerged as one of the solutions as entrepreneurship creates more jobs which in turn increases taxes (Baptista, Escária, & Madruga, 2008). To promote entrepreneurship the Norwegian government has introduced entrepreneurship as a subject in Norwegian schools (Handlingsplan, 2009), created organizations to support entrepreneurship, facilitated funding schemes for new ventures and created support structures.

As an entrepreneur I find the effort to facilitate entrepreneurship simply amazing as it reduces the risk of starting a new venture. But behind all these words and the facilitation however, I find that there is a general lack of knowledge and understanding about how to build a high growth venture. After having spent nearly two years of trying to figure it out by listening to lectures, reading numerous books on related topics, and having scoured the existing theory my venture finally reached the first sale June 2011. Our experience raises a question: How can early-stage startups become even at entrepreneurship and thereby become profitable faster?

The answer may lie just in front of us as the field of entrepreneurship has grown rapidly in the past years, and now contains valuable information on seemingly all aspects of entrepreneurship. What is surprising is the fragmentation in the theory where the information needed by entrepreneurs is scattered throughout a horde of research articles. The lack of systemization means that it is difficult to tap the knowledge of past research, and the closest one can get is currently by looking at models explaining the entrepreneurial process. The models available in the literature has been found to offer little practical value for the entrepreneur (Moroz & Hindle, 2010) which raises the following sub questions:

1) Can a model be created that describe how to perform entrepreneurship?
2) If such a model can be devised, what will the steps look like?

This thesis therefore seeks to achieve a high level overview over a broad field with the aim of bringing the value of theory to entrepreneurs.

1.1 The thesis scope and structure

As the research questions at hand are open ended some boundaries has to be imposed to limit the scope of this paper as it otherwise would be immense. The thesis will therefore focus on how to build a high growth venture with high profits, what the venture capitalists name as a home run (Zacharakis & Shepherd, 2001).

The thesis will begin with a literature review regarding how to achieve high growth by first looking at the entrepreneurial growth pattern before dissecting it in three parts. As the scope is to understand how to reach high growth it will be the phase leading to high growth which will be in focus.

The thesis will then look at the methodology used to answer the questions, and the implications of the method used before the results are presented and discussed. Here the findings will be tied to the theory, which will offer some insight on the difference between what the literature predicts and what is experienced. The thesis will then end with a conclusion before the implications and limitations are discussed.

2 Theory

Entrepreneurial research has in the recent years increasingly focused on the entrepreneurial process (Bhave, 1994; Sarasvathy, 2001; S. Shane & Venkataraman, 2000; S. A. Shane, 2003). As found in previous research the exploitation of an opportunity is a mandatory step in the commercialization of an opportunity. But little research has been done to understand the decision to begin exploitation (Choi & Shepherd, 2004), and the research which exists are only describing attributes of the process (Ernst, 2002). Criticism has therefore emerged arguing that some of the existing work are so theoretical that their validity is uncertain in the majority of practical cases (Gartner, 2001).

Eckhardt and Shane (2003) criticizes the focus on the entrepreneurial attributes. They advocate a focus on the entrepreneurial process as setting the attributes in context with process will yield more valuable information than the observed attribute itself. The proposed change has led to various theoretical models describing the process (e.g. Bhave, 1994; Moroz & Hindle, 2010; Sarasvathy, 2001; S. A. Shane, 2003), and also approaches to strategies (e.g.Bekkelund, 2011) . The result has been a wide range of models which reflects the finding that ventures are not clones of each other (Davidsson, 2005).

In order to understand how a high growth venture became high growth we must understand how the entrepreneurial process works. This chapter will begin with a broad view of how the growth of a successful company happens before exploring what was the reason for the high growth. The chapter will further narrow down on the issue of understanding the entrepreneurial process by discussing some of the models proposed regarding the entrepreneurial process.

2.1 The growth of a startup

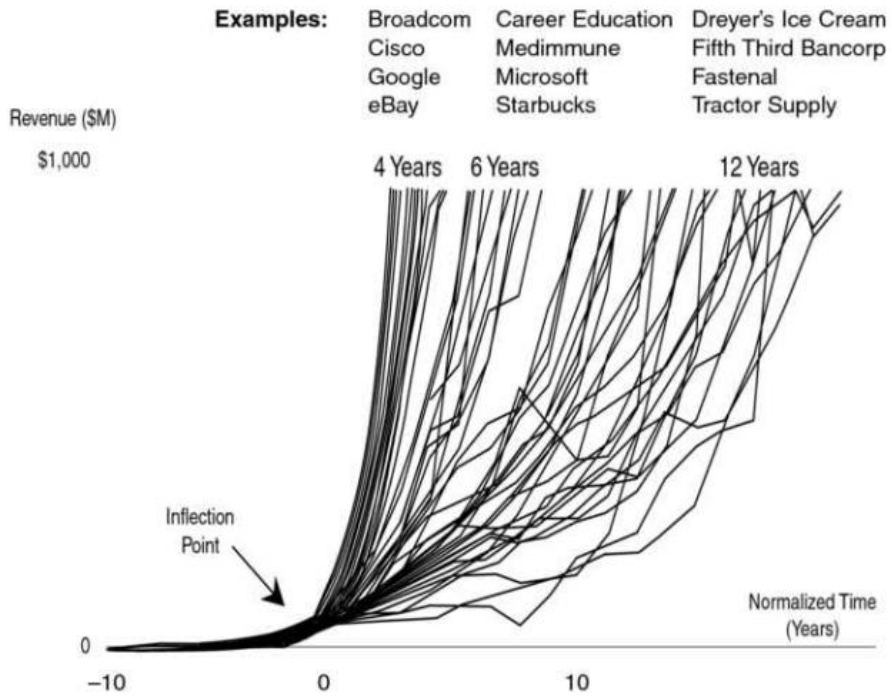

Figure 1 – Revenue growth trajectories for high growth ventures (pp. 7, Thomson, 2006)

As there is no complete theory describing the startup process (Moroz & Hindle, 2010) a measure has to be chosen from where the framework will be built. A good starting point is the work done by Thomson (2006) who collected growth data of over 7000 companies. He discovered that all the most successful companies followed the same growth curve when plotted around the curves inflection point (Figure 1), they were referred to as blueprint companies. The curves were found in all industries, but were more commonly found in some industries than others (Thomson, 2006). The findings is consistent with marketing textbooks (Kotler, 2000), and has been validated in previous work for consumer related companies (Golder & Tellis, 1997), and also more generally by Rogers (1995).

Initially, there seem to be a preparation phase before the companies takes off. More exact there may be some form of exploration to discover the best way to exploit the opportunities before the firm grow (March, 1991), a phase which has later been called incubation time in the field of new product development

(Kohli, Lehmann, & Pae, 1999). While the field of entrepreneurship has used discovery (S. A. Shane, 2003) or **entrepreneuring** (Steyaert, 2007) which will be the term used in this paper. The entrepreneuring phase then transitions around the inflection point as the curve changes to an exponential growth trajectory.

2.2 The growth phase

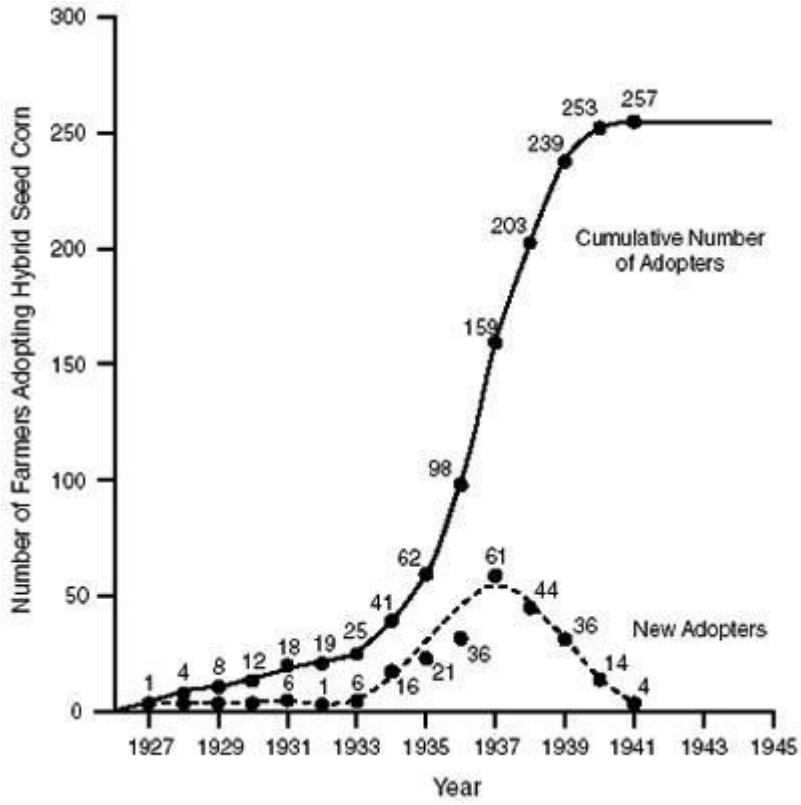

Figure 2 – Product diffusion curve for hybrid seed corn (pp. 272, Rogers, 1995)

To explain the product diffusion (adoption) of new products Rogers (1995) proposed a bell shaped curve. He argued that even though a large market exists for a new product, only 2.5% of the market would initially be inclined to buy the product. By dividing the total addressable market in categories according to the customers risk awareness he explained the occurrence of the same exponential growth (or the S curve) found by Thomson (2006) for high growth companies.

This means the connection between entrepreneuring and growth lies in the inflection point. To understand how to get to the growth phase we have to understand what the inflection point is, and how to get to it.

2.3 The inflection point – Defining product market fit

The inflection point has been referred to by many names in the literature. The most known is the concept of fit. Fit describes how the entrepreneurial style, organizational structure, and mission strategy of the venture aligns with what is required by the environment. The better fit the better performance of the company, which makes it important to get to the fit (Naman & Slevin, 1993). But the fit is by no means easily achieved as it consists of a wide range of variables that has to be controlled (Hienerth & Kessler, 2006). It is therefore not a binary question of fit or not, but rather when the fit is good enough.

2.3.1 The emergence of fit

According to Thomson (2006) the high growth ventures followed similar growth trajectories, but the period before the inflection point were different for all ventures. Some used several years to figure out how to get to a product/market fit, while others found it fairly quickly. Block and MacMillan (1985) reflects on the issue by finding that *"Starting a new business is essentially an experiment. Implicit in the experiment are a number of hypothesis (commonly called assumptions) that can be tested only by experience."* Startups can therefore be expected to be developed through an evolutionary process leading up to the promising inflection point where they can enter the exponential revenue trajectory.

As increased growth is expected to occur first at the inflection point, we can begin to question the notion of instant success for new products. This might suggest that a potential product should not be built before there is at least some proof in the market that a sale of the product is likely to take place. This makes it imperative for startups to reach the enlightenment needed about the customer and market to sell the product. According to Maidique and Zirger (1985) this is an understanding which can be obtained before the first product has been built.

2.3.2 Fit explained by experience

Descriptions of when a good enough product market fit has been reached are few. Leslie and Holloway (2006) argued that the commercialization process consist of two parts being performed in parallel. The technical development known as the Manufacturing Learning Curve (MLC) which see the increase in productivity as a result of increasing experience from the production (Argote & Epple, 1990), and what they refer to as the Sales Learning Curve (SLC). The Sales Learning Curve describes that the initial idea is not necessarily what the

customer is looking for. The startup must therefore learn from its environment and adapt to the findings which will gradually increase the chances of success, meaning that the more interactions with customers to achieve a fit the higher the chance for success (Roberts, 1992; Rodriguez Cano, Carrillat, & Jaramillo, 2004). A significant time has therefore to be spent with the customer to educate the customer about the offering, to learn the customer's product requirements, to build a repeatable sales model, to figure out positioning, and to figure out the needed customer support structure to reduce the entrepreneurs ignorance (Choi, Lévesque, & Shepherd, 2008).

According to Leslie and Holloway (2006) the product market fit is not a single moment in time where an eureka moment occurs, but it is defined as a zone. The direct measure of when the product market fit has been achieved is defined to be when the sales yield is twice the cost of a sales representative when the product is in the exploitation phase. Only when the measure is achieved can the venture enter an exploitation phase. The idea is similar to Golder and Tellis (1997) which has provided a similar statistical definition for when exploitation, or product takeoff as they call it, can occur.

2.3.3 Fit explained by planned value creation

An alternative way of looking at fit is by understanding the variables that constitute a fit in order to construct the fit rather than measure its emergence. To do the job the concept of business models emerged. The exact definition of what a business model is has not yet been agreed upon (Zott, Amit, & Massa, 2010), but various literature refers to the business model as an architecture of the product or service (Timmers, 1998), the model for which the company delivers value to the customer (Johnson, Christensen, & Kagermann, 2008), or a story of how the business works (Magretta, 2002). Common for most of the definitions are the three aspects creating, delivering, and capturing value (Itami & Nishino, 2010; Osterwalder, Pigneur, & Tucci, 2005; Sosna, Trevinyo-Rodríguez, & Velamuri, 2010; Teece, 2010; Zott, et al., 2010). An observation which led to Osterwalder and Pigneurs (pp. 14, 2010) definition *"A business model describes the rationale of how an organization creates, delivers, and captures value"* which will be used as the definition of business model in this paper.

According to George and Bock (2011) the business model is not description of or recipe for change, but a static configuration of organizational elements and activity characteristics. The nonreflexive nature of business models separates it

from strategy which has been defined as *"the major intended and emergent initiatives taken by general managers on behalf of owners, involving utilizations of resources, to enhance the performance of firms in their external environments"* (pp. 944, Nag, Hambrick, & Chen, 2007). Which means strategy is process oriented to redesign and choose the optimum business model to exploit an opportunity (Casadesus-Masanell & Ricart, 2010).

As the business model is the outcome of a strategy rather than the beginning (Casadesus-Masanell & Ricart, 2010) the entrepreneur can create numerous models which perform the same purpose, but which do not have the same performance. This enable the creation of competitive advantage through having an unique business model (Christensen, 2001; Zott & Amit, 2008). The product market fit can therefore be optimized through changing the elements in the business model, and how they act together to create, deliver and capture value. This experimentation process has been claimed to be an important part of successful businesses (H. Chesbrough, 2010). Burgers and Sawang (2011) found the claim to be true and expanded on the claim by finding that the initial business model might not be the optimal one, meaning that a venture should have both elements of exploration and exploitation in order to succeed.

2.3.4 The components of fit in the business model

To facilitate the development of business models the framework Business Model Canvas emerged (Osterwalder & Pigneur, 2010), a model which Chesbrough (2010) has cited as a pro active way to experiment with alternative models. It can therefore be an aid in the struggle towards achieving product market fit.

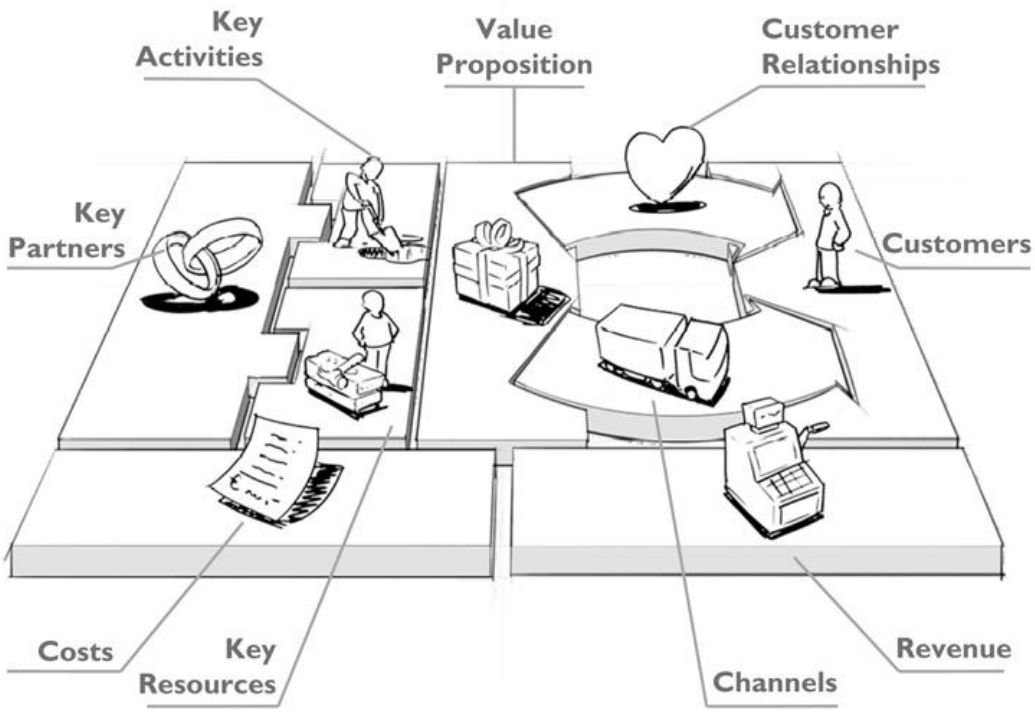

Figure 3 - The business model canvas (pp. 18-19, Osterwalder & Pigneur, 2010)

The canvas consists of nine building blocks, illustrated in Figure 3, which are defined as follows:

Customer segments Defines the different groups of people or organizations an enterprise aims to reach and serve. The customers are the foundation of a profitable company. The business model must therefore be designed around their need.

Value propositions Describes the bundle of products and services that create value for a specific Customer Segment. The Value Proposition is the reason why customers choose one company over the other.

Channels Describes how a company communicates with and reaches its Customer Segment to deliver a Value Proposition. Communication, distribution, and sales channels comprise a company's interface with the customers. Finding the right mix of Channels to satisfy how customers want to be reached is crucial in bringing a Value Proposition to the market.

Customer Relationships Describes the types of relationships a company establishes with specific customer segments. Relationships can range from personal to automated. The Customer Relationships called for by a company's business model deeply influence the overall customer experience.

Revenue Streams Represents the cash a company generates from each Customer Segment. If customers compromise the heart of a business model, Revenue Streams are its arteries. The revenue stream will be affected by the price a customer is willing to pay for the value provided by the company.

Key Resources Describes the most important asset required to make the business model work. Different Key Resources are needed depending on the type of business model. Key resources can be owned or leased by the company or acquired from Key Partners.

Key Activities Describes the most important things a company must do to make its business model work. Key activities differ depending on the business model type. They are the most important actions a company must take to operate successfully.

Key Partnerships Describes the network of suppliers and partners that make the business model work. Companies create alliances to optimize their business models, reduce risk, or acquire resources.

Cost Structure Describes all costs incurred to operate a business model. This building block describes the most important costs incurred while operating under a particular business model.

The various intersections between the blocks create the story of how the company captures, creates and delivers value to the customer. Various configurations define various business models, and patterns can be seen for regularly used business models. But there are obstacles that have to be resolved. Each block in the business model represent a collection of needed resources, and each interconnection in a business model is a configuration of resources. The fit is rarely achieved from the beginning, and seldom are all needed resources to build a the right business model available from the outset (Brush, Greene, Hart, & Haller, 2001; West III & Noel, 2009).

2.4 Entrepreneuring – Getting to the fit

From Thomson's (2006) curve it can be observed that the duration of the entrepreneuring phase is at least as long as the growth phase, an observation in accordance with previous work on product diffusion (Kohli, et al., 1999).

The length of the process has been found to be contributed by both external and internal factors. Kohli et al. (1999) found that lack of customer adoption was attributed to high levels of novelty of the offering. While Schoonhoven et al. (1990) found that the innovation factor contributes to the length of the process, as more novel products require more knowledge and is therefore more expensive and time consuming to develop. The findings indicate that a product should be intuitively known by the customer, and technically easy to develop. The suggestion is in contrast with the resource based view which advocates the need for valuable, rare, and inimitable resources as a source of competitive advantage (Brush, et al., 2001). This indicates that there is a middle way which has to be taken.

In sum the entrepreneur has to control several attributes, both internal and external, and also predict behaviors to be successful. To understand how the entrepreneur manages the feat, several models of entrepreneuring have been proposed in the literature.

2.4.1 Revisiting prominent models of the entrepreneurial process

In search for a model which could describe the entrepreneurial process in a valuable way for both researchers and practitioners, Moroz and Hindle (2010) asked the question *"what was both generic and distinct about entrepreneurship as a process?"*. Of 32 scholarly models found describing the process only four were considered to converge towards an answer: Bruyat and Julien (2001), Gartner (1985), Sarasvathy (2008), and Shane (2003). What they discovered was that each of the models had their unique traits taking place in the entrepreneurial process, but that none of them could explain entrepreneuring alone. Following is an outline of the four models.

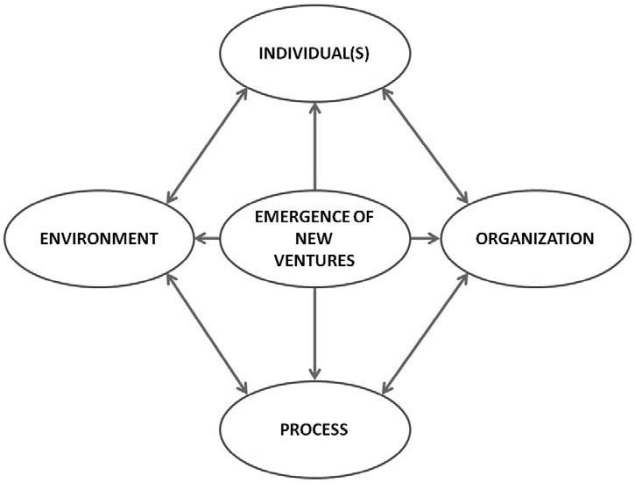

Figure 4 - A framework for describing new venture creation (Moroz & Hindle, 2010)

Gartner's(1985) model defines the emergence of a new venture by the four interconnected dimensions. *The environment* where accessibility, availability and proximity to resources were important. *The organization* where design, entry mode, and position in the environment mattered. *The Individual(s)* where the various entrepreneurial traits were important. *The entrepreneurial process* defined by six steps commonly found in the literature, locating a business opportunity, accumulate resources, market products and services, produce the product, build an organization, and respond to government and society.

The steps was found to be good for classifying and generalizing the aspects of the entrepreneurial process, but the model failed to incorporate the aspects of innovation and temporality in the process, two aspects associated with the entrepreneurial process (Drucker, 2006; Schumpeter, 1934).

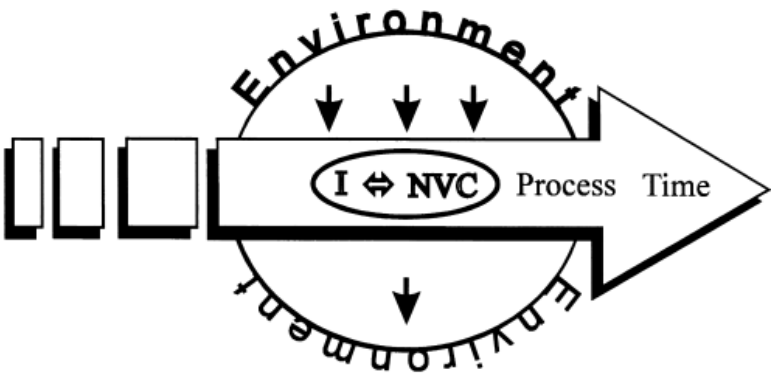

Figure 5 -Entrepreneuring located within its environment and time (Bruyat & Julien, 2001)

Bruyat and Julien's (2001) model is a development of Gartner's (1985) model where the purpose of the venture has been refined from a pure profit orientation to a value creation orientation. The change opens for the embedment of new types of ventures in the entrepreneurial theory such as non-profits. Bruyant and Julien argue that in order to understand the value creation motive the focus has to be on the individual, the organization, the environment and the links between them.

The model therefore proposes that the individual creates the venture. The venture then affects the individual while being affected by the environment. Contrary to Gartner's model it is suggested that the individual entrepreneur whom committed to the creation is not only responding to the environment, but also affecting the environment through the organization. The implication is that the process inhibits not just positioning but also aspects of constructing in the entrepreneurial formation. Lastly they connect the interaction with time which implies that there is a process taking place where the actors are evolving.

The model is criticized for its simplicity as the venture is referred to as a black box which the model is constructed around, which limits the model's power of explaining the entrepreneurial process. The implication is that the value motive remains unexplained as there is no description of who creates value and how it is distributed (Moroz & Hindle, 2010).

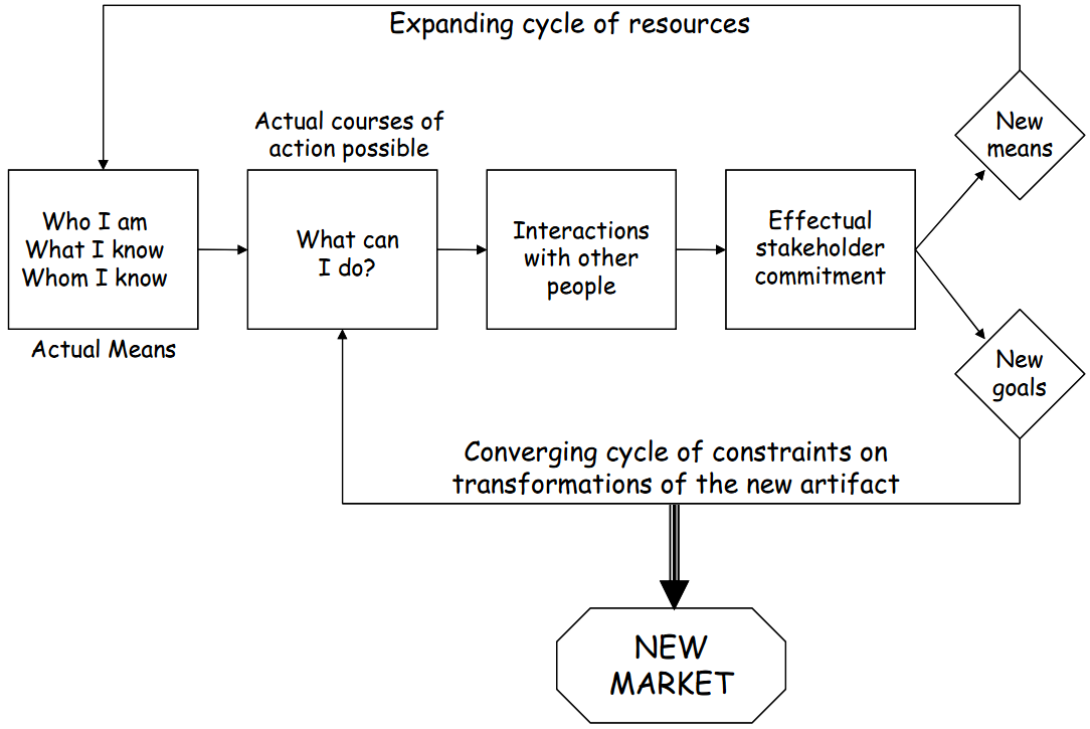

Figure 6 - A dynamic model of the effectual network (Sarasvathy & Dew, 2005)

Sarasvathy's (2001, 2008) model addresses the unknown inner workings of a venture by explaining the entrepreneurial process through the concept of effectuation. Effectuation focuses on what can be done giving the existing means, a definition opposite of the positioning school's causation which focus on what ought to be done given the existing goals (Sarasvathy & Dew, 2005).

As evident these are two approaches which explain how to achieve the same goal, but they are doing so by different means. By following causation the entrepreneur regards the environment as constructed and therefore controllable and predictable, meaning that the goals and means needed to achieve an opportunity can be deduced before the beginning of entrepreneuring. The task therefore becomes one of maximizing returns by finding the optimal position in the competitive landscape (Sarasvathy & Dew, 2005) .

Effectuation on the other hand is open for that the entrepreneur to a certain degree can control the environment by taking part in its design. To take a part in the design the entrepreneur has to use the available means identified by the questions: What I know, who I am, and who I know, as a guide for the available

resources which can be used to design the future. The questions opens up for network effects, meaning that effectuation relies on cooperation through partnerships rather than competition. As practitioners of effectuation can take part in the design of their environment the need of predicting the future is replaced by constructing it. But there is a risk involved in the approach which has to be optimized for by not risking more resources than the entrepreneur can afford to lose.

The advantage of the emergent explanation offered by effectuation is also why effectuation has been criticized as effectuation disregards the need for a plan and a goal. Effectuation should however not be disregarded as the approach to entrepreneurship has been found to be positively related with new venture performance (Read, Song, & Smit, 2009).

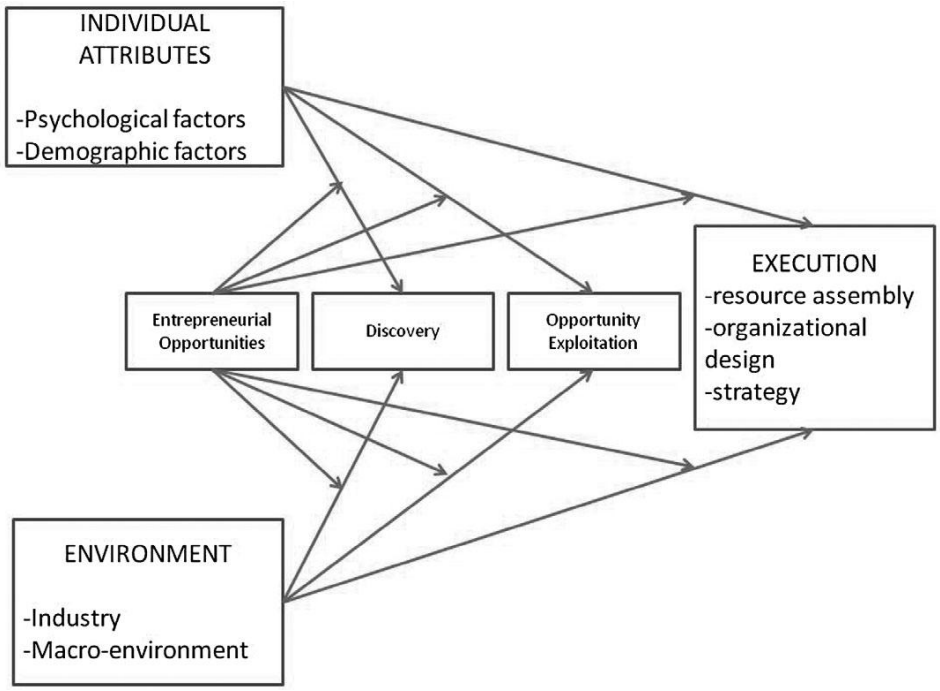

Figure 7 – A model of the entrepreneurial process (pp. 11, S. A. Shane, 2003)

Shane (2003) argues that there is a lack of a conceptual and coherent conceptual framework for entrepreneurship because researchers only focus on part of the entrepreneurial process without considering the relationships between all parts.

The proposed solution to unify the field is to incorporate the effects of both the environment and the individual on the entrepreneurial process. The process

itself is claimed to be divided in three possibly overlapping and recursive stages: existence of opportunities, discovery of opportunities, and the exploitation of opportunities. The process eventually leads to execution with the accompanying strategy, organizing, resource acquisition which all relates to performance.

The advantage of the model is that it unifies existing theories related to the entrepreneurial process, but the model lacks sophistication as the model fails to elaborate on what happens in the entrepreneurial process. Another observation is that the model contradicts the steps found by Shane and Venkataraman (2000) by omitting the step of opportunity evaluation without explanation.

2.4.2 An integrated model of the entrepreneurial process

The various models all have traits that explain the entrepreneurial process, but at the same time they all have caveats which hamper the theoretical and/or practical use of the models. Moroz and Hindle (2010) notes the fragmented nature of the field of entrepreneurship and criticizes the field for containing a wide range of models which promotes various authors views. They found that out of 32 models found, only 12 were backed by systematic evidence. The four models argued as the most complete and trustworthy were based on widely different perspectives which to some degree were found to have contradicting elements. An example is the creative perspective offered by Sarasvathy (2001) by effectuation in contrast to Shane's (2003) more causational approach with the opportunity discovery perspective.

According to Hindle (2010) the right model has not yet been found, but several of the aspects which should be included in a model have. From the previous discussion a model should therefore encompass a relationship between the individual and the opportunity, the value of new knowledge, value creation for stakeholders by creating new business models, there should be an aspect of time involved as opportunities change over time, the model should represent that action is needed as formulating a plan is just the first part of entrepreneurship while execution makes the plans real, and lastly the context of the venture should be involved as various internal and external factors results in different entrepreneurial developments.

Hindle (2010) draws on the findings to propose an unified model for the entrepreneurial process (Figure 8). The model builds on previous models by integrating thoughts about causation (S. A. Shane, 2003), effectuation (Sarasvathy, 2001, 2008), and bricolage (making do with what's available and building upon it) (Baker & Nelson, 2005) in the model outlining the entrepreneurial process in the steps opportunity, existence, discovery, evaluation and exploitation (S. Shane & Venkataraman, 2000).

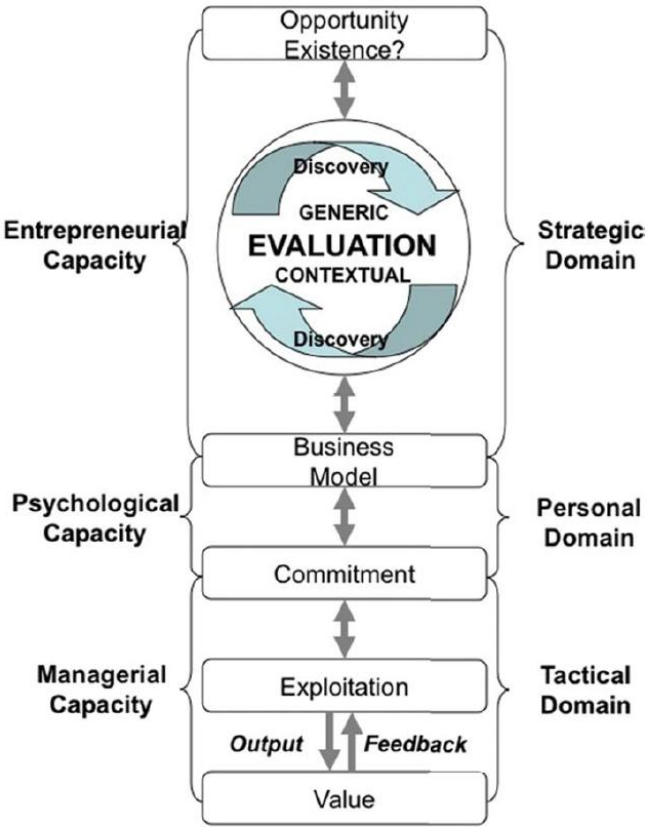

Figure 8 - A unified model of the entrepreneurial process (Hindle, 2010)

The evaluation process in the model is defined to be an iterative one where the entrepreneur assesses the opportunity and has discovery as the outcome. The discovery is then articulated in a business model which a team commits to exploit in order to achieve revenue. For each iteration the business model is improved which enhances the chances of finding a working revenue model. By giving value to the customers through a transaction the company receives valuable input in return which fuels the model to give new optimizations. As the model evolves the venture reaches an established state which then completes the model.

The process of reaching the established state is argued to be jagged instead of linear as the process is based on iterations where some degree of exploitation is taking place after discovery. This is a discovery which may explain why the entrepreneurial process is often described as chaotic.

2.5 The elusive customer

The models outlined provide an understanding of the elements involved in entrepreneuring, and offers explanation on some of the strategies that can be utilized. In all the models the entrepreneur or the organization are the centre of attention from where the entrepreneurial process flows, but as the motive is value creation the question of what value for whom is created is important. This raises the concern that none of the models actually offers any answers to the two latter questions. To answer the issues Entrepreneurial Marketing (EM) has emerged with the definition *"the proactive identification and exploitation of opportunities for acquiring and retaining profitable customers through innovative approaches to risk management, resource leveraging and value creation"* (Morris, Schindehutte, & LaForge, 2002).

Whereas the conventional marketing methods focuses on the discovery of the market before developing the product in a structured way (Webster, 1992), entrepreneurial marketing is a more chaotic development relying on intuition (Chell, Haworth, & Brearley, 1991). Stokes (2000) noted that the top-down approach used in corporate marketing is not what is successful among entrepreneurs. His findings seem to point toward the bottom-up approach being most successful where the entrepreneur acquires users to understand the market, and then expands the user base. The finding is consistent with Rogers (1995) concept of having a Lead user define the path ahead.

The lead user term was created by Urban and Hippel (1988) and developed by Rogers (1995) with the idea that companies creating new products may not be experts in what the customer's need, and they may therefore fail to provide the benefits needed for the customer to find the product worth purchasing (H. W. Chesbrough, 2003). But there is a risk to the approach. Lead users can quickly become lead failures as what the early visionaries want for their company might not be what the mass market needs (Moore, 1991). The result can be a product which is too tailored for the lead user (Alam, 2006).

The idea was later put to practice and constitutes today an research field within marketing called "The Fuzzy Front End"(later rebranded Front End Innovation) (Smith & Reinertsen, 1992). The Fuzzy Front End describes how an initial idea which is filled with ambiguity and uncertainty has to evolve to become a commercially viable idea which can be used in a New Product Development process. Brun et al. (2009) defined nine types of ambiguity that has to be reduced before the idea is deemed good enough to enter a New Product Development process.

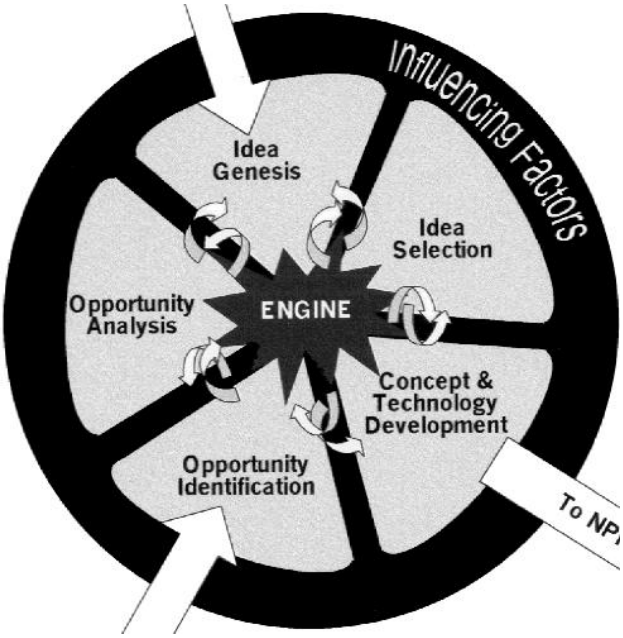

Figure 9 - The fuzzy front end leading to new product development (Koen et al., 2001)

The reduction of ambiguity according to the Fuzzy Front End approach is by no means linear. Instead a set of activities has been found to take place (Figure 9) which describes a chaotic process encompassing opportunity identification, opportunity analysis, idea genesis (converting opportunity to an executable idea), idea selection, and concept and technology development. The stages are driven by an engine which is fueled by the culture and leadership of the company, and influenced by external environmental factors (Koen, et al., 2001).

The Fuzzy Front End model has a close resemblance with several of the entrepreneurial process models and to some degree merges their ideas, but at the same time it differs. Implicit in the Fuzzy Front End is the contact with customers/users which defines the idea and guides the development through cooperation.

The uncertainty of allowing externals to have a saying in the innovation process is coming at a cost. Findings indicate that the penalty is that the customer interaction time stands for 50 % - 66 % of the new product development time

(Gassmann, Sandmeier, & Wecht, 2006; Smith & Reinertsen, 1998) which mean that the benefits from customer involvement have to be substantial.

Studies indicate that the benefit can in fact be substantial, but it varies from field to field. For service innovations it was found to reduce the development time (Alam, 2006), while for more complex products the opposite was found as the interaction can be time consuming (Campbell & Cooper, 1999). Customer interactions was however defined as crucial for complex products as it resulted in better products because of a better understanding of the customers need. (Carbonell, Rodríguez Escudero, & Pujari, 2009; Shah & Robinson, 2007). This build on the idea that customers offers valuable insight which can Unfuzzy an idea, but at the same time the valuable input can be a limitation because the process is time consuming and could possible lead to a customized product for a nonexistent niche.

2.5.1 Customers impact on the vision

All models emphasize the need to develop an idea into a product, and some proposes that the future customer should have a saying. Yet the results of letting the customer define the entire product can be disastrous. The outcome is that what the customer wants is not necessarily what the entrepreneur wants meaning that they have two different visions. It can appear that the product vision of the entrepreneur aims at targeting a wide range of customers while the customer is just out after a solution for their need. The idea means that customers can provide vital industry and need information for a part of the entrepreneur's vision, but that the complete picture has to be compiled from a wide range of environmental inputs (Tessarolo, 2007). The optimal balance between deduction and customer learning is difficult to find, but there is indications that the optimum lies on the top of an inverse U shaped function (Yli-Renko & Janakiraman, 2008). The idea of learning from the customer is indeed intriguing, but to apply the theory in practice there has to be a certain understanding of how it works.

The process can be described to have the three steps: Market information gathering, sharing and using. These three steps are intuitively easy to perform, but when it comes to practice it was found difficult to implement customer interaction in an organizations culture (Olson & Bakke, 2001). In a study it was found that 75% of the failures had less than average knowledge of the market, gathered less than average information, or even ignored it while setting product

specification (Ottum & Moore, 1997). From the study it can be seen that interacting with and learning from the market increases the chances of success considerable, and that a startup in fact has to focus on both the business development and technical development at the same time to reach a product/market fit.

2.6 Summary

Previous findings in the literature define the boundaries of how a model describing entrepreneurial process should be. It may seem that the process can be divided in three zones: The entrepreneuring zone, the transition zone, and the growth zone. Theories explaining what entrepreneuring are and how to perform the task is scarce even though there are multiple models describing the process. From the theory it can be found that the creation of a new venture is fuzzy and uncertain in the beginning, and that there is a process taking place to reduce the uncertainty. The process is two-fold. On one side it is found that the entrepreneur has to learn the necessary abilities to grow the venture, while on the other side the entrepreneur has to discover the customer and a way to create, deliver, and capture outstanding value to trigger a buying process.

From four prominent models regarding entrepreneurship, and one regarding new product development, a set of attributes has been found which are essential for entrepreneuring. The attributes are the interaction between the entrepreneur, the organization, and the environment by implementing the stages opportunity existence, discovery, evaluation and exploitation.

What all the models lacked was a focus on for whom the value should be created for, namely the customer. The customer is therefore a central aspect of the entrepreneuring as it is the customer who decides when the goal of value creation has been reached by committing to buy (Bhave, 1994).

The model proposed by Hindle (2010) complies to some of the constraints, but the model fail to explain what the iteration process is, and for who it is for. An elaboration of the model is therefore needed.

If a model can be created within these constraints there might be a way of popularizing research to make it more easily available for future first time entrepreneurs, with the goal of improving the current success rate at 21% (Gompers, Kovner, Lerner, & Scharfstein, 2010).

3 Methodology

The methodology used is dependent on the research question at hand, which for this thesis is to discover how a high growth venture can be built by an entrepreneur. The research question at hand is open ended, meaning that it is wide. This has implications for the choice of research strategy, choice of research design, the methods for collecting data, and the methods for analyzing the data. I will in this chapter cover the considerations which have been taken in relation to the research ending in a defined way to approach an answer to the question at hand.

3.1 Choice of research strategy

Research effort has focused on various specific parts of the entrepreneurial process which was then depicted as a whole by placing the various contributions in a timeframe. The curious part is that the existing work in large either focuses on the process in the startup's early days or on the final days of the startup where it becomes apparent if it is a failure or a success. For the entrepreneur the most interesting part happens in the chaos (source) in the middle where the choices has to be taken that will eventually decide the startups future.

To study the subject at hand a more open ended and inductive approach was taken as the existing theory to a lesser extent explained the development and decision making process leading up to high growth. A process with close resemblance to grounded theory was chosen to let the theory emerge from the data. As the theory emerged it was supported by findings from the literature through an iterative process (Bryman, 2001).

According to Foss and Ellefsen (2002), the two methods of achieving breadth and overview provides different kinds of knowledge. A quantitative approach gives a general and broad view of the topic while a qualitative approach gives a more descriptive understanding of the situation which can provide a more complex and deep insight. As I was seeking to understand the matter instead of creating a concept with general validity I choose to use the art of qualitative research to guide me toward a theory.

3.2 Choice of research design

A comparative case study was chosen as it allows the researcher to fully grasp the complexity and particular nature of a case (Bryman, 2001), and to create a deeper understanding of why and how the development became the present

result (Tellis, 1997). Yin (1981) separates the case study in three: The exploratory, the descriptive, and the explanatory case study. The limited work done on the topic raises a concern to the thought of limiting the research based on previous theory. To be open-minded for new impressions chose an exploratory approach which will provide insight and understanding of the phenomena being studied while giving the researcher more space to define the problem at hand before narrowing down to the essence of the problem Bryman (2001).

3.3 Choice of research Method

Data can be gathered from a wide range of places. Common examples are through interviews, focus groups, participant observation, and documents (Bryman, 2001). This thesis will be mainly be based on a new type of documents, blogs, which has become increasingly important in social research. As a method qualitative content analysis was employed.

Blogs have enabled the regular user to publish their story on the internet through an easy to use interface (Thelwall & Wouters, 2005). The minimal learning curve needed to publish your own story on the internet has fueled an exponential growth in the number of blogs created. What is interesting is that the most popular blogs are written by people ranging from those famous for their work like the Nobel Prize winner Paul Krugman[1], to experts in their fields[2], to persons who want to share knowledge about their hobbies[3], to the more personal diaries[4].

For me this means that I can get access to the experience of people who has figured out a way to get from the initial idea and to a high growth venture not just one time, but they have proven consistently that they can do it again and again and again and are now willing to share how they did it through their blogs.

[1] http://krugman.blogs.nytimes.com/
[2] http://www.avc.com/
[3] http://kniver.blogspot.com/
[4] http://voe.blogg.no/

3.4 Sampling and case collection

An initial pool of cases was found for closer examination by finding the most popular blogs on the topic at Quora.com and Alltop.com. The advantage of the dataset is the wide variety of information, but as everyone is able to contribute anything at anytime with any intentions on blogs, a sampling filter had to be applied. In this case a purposive sampling strategy was chosen to reduce the variation in data, and to help define the limits for generalizing the findings (Eisenhardt, 1989). The specific purposive sampling strategy used were theoretical sampling, meaning that the sampling process was an ongoing process to maximize the theoretical inferences that could be made, and to ensure information richness (Bryman, 2001; Flyvbjerg, 2006). Of the sample five cases were chosen not randomly, but sampled purposively on four levels:

1) The blogs chosen were written by entrepreneurs whom had demonstrated that they could replicate venture success based on their knowledge.
2) The sample was narrowed down by choosing blogs that had at least five posts related to the topic at hand to ensure a large enough dataset in each case.
3) A background check by the use of Linkedin and Google was then applied to verify the bloggers claimed history.
4) The blogs were chosen based on views from persons in different jobs to ensure diversity in the dataset

The sampling resulted in the data collection of the following five blogs:

Blogger	Why chosen
Steve Blank	Wrote the book "The four steps to the epiphany" (Blank, 2005) which tries to explain the entrepreneurial process based on his experience. Blank has so far co-founded eight startups in a wide range of industries where one went IPO. He is now working as a teacher at Univ. of California, Berkeley, and Stanford. Specializes in the early phase of a startup
Sean Ellis	Founder of startups that has either been acquired or gone IPO. Specializes in marketing when a startup is ready to scale.
Jason Cohen	Technical founder of several acquired startups. Has experience with the combination of product and market.
Brant Cooper	Product developer/marketer for various large firms and startups. Specializes in implementing marketing mechanisms in startups.
Mark Suster	Sold two startups before converting to be venture capitalist at GRP Partners. Provides the financial perspective and criticism of startups.

Table 1 - Introduction of the bloggers in the dataset

3.5 Data collection and analysis

The use of theoretical sampling in the framework combined with grounded theory resulted in a research before theory approach on data collection and analysis. The cases were therefore chosen to contradict existing data, or to supplement it before the data was analyzed and placed in context with existing theory. To aid the data collection and analysis the program Nvivo 9[5] was used as the process tend to produce an overwhelming amount of information which needs to be connected.

The data were then analyzed based on the theory of grounded theory where a constant comparative analysis was applied (Glaser & Strauss, 1967). This implies that the data was coded openly into concepts before being categorized. The categories were then transformed into several hypotheses which were explored before being saturated with the available data as a possible theory started to emerge as suggested by Bryman (2001). The categories were then explored by setting them in context with existing knowledge from the literature.

3.6 Validity and reliability

There is a vast amount of information on the internet produced by anyone with unknown intentions which means that the information can be downright wrong and deceiving. The research strategy has been designed to accommodate the problem, but the question of when one can be certain of the results will always linger in the background. Unfortunately the constraint of time ensures that decisions have to be made to limit the scope of the work being done.

To make the best of the constraints imposed, the correctness of the study has been attempted to be ensured through the three concepts validity, reliability, and for the documents authenticity, credibility, representativeness, and meaning after the suggestions of Bryman (2001) and Scott (1990).

3.6.1 Validity

Bryman (2001) outlined three main criteria for validity: Internal, external, and ecological validity. According to LeCompte and Goetz (1982) *internal validity* is usually one of the strengths of qualitative research as the methods allows the researcher to interact with the subject to truly understand their answer. The use of blog posts however lacks this trait as it is often a one way communication

[5] www.qsrinternational.com

from the blogger to the researcher. The challenge of verifying the causality between nodes relies therefore solely on the richness of the text being analyzed, and the interpreter's ability to see the concepts in context.

The small sample size further enhances the problem as theoretical saturation is rarely achieved for the various nodes due to the small sample size. To mitigate the problem an interview were later performed with a serial entrepreneur to receive feedback on the findings.

The small sample size is not only problematic for internal validity, but also for *external validity* as the findings will be difficult to generalize. It has however been chosen to present the findings as generalized as the aim is to create a discussion rather than create the right model, which would be optimistic regarding how comprehensive the research field is. The countermeasure chosen were triangulation by fetching data from entrepreneurs with different backgrounds who could provide intersecting data.

The *ecological validity* is because of this choice good as the thesis is purely based on experienced persons perceived as experts due to their background. The choice was taken deliberately to provide entrepreneurs with a better understanding of the entrepreneurial process.

3.6.2 Replicability and Reliability

The advantage of using blogs is that the text is available for everyone to replicate at any time. With this overview of how the study was performed, hopes are that possible replications will yield the same results.

For an imagined replicated study to yield the same result there are however some barriers. First of all the concept of grounded theory is prone to the researcher introducing biases in the results as nodes are created, categorized, and relationships between them mapped. There is little to do with such bias, but the awareness of it is hoped to have a positive effect.

3.7 The influence of the use of blogs

The four issues authenticity, credibility, representativeness, and meaning have been maintained to the extent possible. The authenticity of the blogs was verified through checking the résumé of each blogger. The same check was performed to verify their credibility through previous achievements. But blogs are still an online medium and the authors can be deceiving. Goffman (1959)

coined the term impression management arguing that people wore different faces as an art of self-representation. With the public presence of a blog this raises concerns to what degree the content of a blog has been modified to better represent the blogger, and with that the correctness of the information in the blog. Personal blogs were therefore chosen for the transparency offered with known authors.

The representativeness of the bloggers posts were ensured by relying on the bloggers credibility. Each blogger was chosen because they had proved to consistently be able to replicate the high growth venture, meaning that the knowledge of each blogger was based on several data points. The limited sample and the wide range of ways to succeed make it however doubtful that the criteria have been matched well enough. It is therefore not certain that the consensuses of the various bloggers represent the real facts regarding the issue, but they will provide insight as they all present evidence with distinct meaning.

4 Results & Discussion

The chapter aim to present the findings and set them in context with the problem definition as outlined in the introduction, and the existing theory in the field. The structure of the chapter is a brief introduction to the datasets view of the startup development to prepare for a more in depth analysis of the four categories which emerged from the 61 nodes the data were coded in.

Each category to be discussed is constructed from nodes which will be used to support the discussion of each category to give a better understanding. The chapter will then end in a graphical model representing the findings in context with existing work.

Category	Nodes
Vision	Minimum viable product, Vision, Customer definition, Flip or build, Scorecard
Customer Discovery	Minimum viable product, Information is outside, Early adopters
Customer validation	Minimum viable product, Turn hypothesis into confirmed information, Understand customer
Agile learning	Minimum viable product, Customer defining company, Product development, Information changes

Table 2 - Overview of categories and nodes to be discussed

Early entrepreneurial theory was derived from the fields of management and economy, meaning that the main focus was on the entrepreneur with a profit motive to create a startup. The focus later changed as it became apparent that the process could not easily be explained by using the entrepreneur as the dependent variable, and justify the actions with the profit motive. The change is pointing us in the direction of entrepreneurship being a process where value is created (Bhave, 1994; Bruyat & Julien, 2001; Gartner, 1985; Sarasvathy, 2001; S. A. Shane, 2003). The change aligns with the data which suggests that entrepreneurship is highly process based. According to Steve Blank (2010g) *"A startup is an organization formed to search for a repeatable and scalable business model"* which is supported by Sean Ellis (2009a) defining the purpose as *"getting to Product/Market Fit as soon as possible"*.

The statements indicate the existence of a specific goal which has to be achieved before high growth can occur, Steve Blank elaborates:

A "scalable startup" takes an innovative idea and searches for a scalable and repeatable business model that will turn it into a high growth, profitable company. Not just big but huge. It does that by entering a large market and taking share away from incumbents or by creating a new market and growing it rapidly. (Blank, 2010c)

The statement indicates that the goal can be assumed to be equivalent to the concept of fit (Section 2.3, pp. 6). The question is then how to reach fit; a process explained by the four categories which emerged from the dataset.

4.1 Vision – The mental image of the future

According to Mark Suster (2010e) it all begins with a *"market problem that you believe you can solve"*, which according to the dataset constitutes the vision. Brant cooper (2009b) contributes on which elements the vision is built on *"Your vision includes your customer, the problem you're solving, and how you're solving it."* The statements can be interpreted as the vision being the entrepreneur's formulation on how to commercialize an opportunity, meaning that it contains both aspects of planning and guessing.

The assumption is persistent in Steve Blank's (Blank, 2009d) definition as *"You start a company on a vision; on a series of Faith-based hypothesis"*. The theory supports the notion that the vision isn't purely data driven, as it has been found that industry experience contributes to better performance (A. C. Cooper, Gimeno-Gascon, & Woo, 1994).

To better understand how to construct a good vision and to ensure the right development of the vision the following three categories emerged.

4.1.1 The entrepreneur's goal

According to Steve Blank there are two types of startups with two different goals. It is the scalable startup which offers the chance of high returns:

A "scalable startup" takes an innovative idea and searches for a scalable and repeatable business model that will turn it into a high growth, profitable company. Not just big but huge. (Blank, 2010c)

And the small businesses:

Their primary goal is a predictable revenue stream for the owner, with reasonable risk and reasonable effort and without the need to bring in world-class engineers and managers. (Blank, 2010c)

According to Blank (2010e) *"A scalable startup is designed by intent from day one to become a large company"* which can be interpreted as the two types of ventures are different because they are created with different strategies. The observation is similar to the choice between *Rich* or *King* coined by Wasserman (2008). The choice reflects the founder's choice between the two strategies of remaining in control (being king) or to plan for an exit at high valuation (becoming rich). By choosing king the growth remains organic, the risk low, and the founders in

control, while by opting for rich the founder accepts loss of control in exchange for resources to drive growth such as additional competence and money. Both Blank and Wasserman argues that the two strategies are mutually exclusive as they are two strategies with different goals.

Another view, however, can be understood from Jason Cohen, who, after having sold one of his companies, wrote:

I did mix "Rich" and "King," and it worked. […] Profit was the rule behind every choice we made. Although the end goal was always acquisition, my attitude was (and still is) that the best way to get yourself acquired is to be profitable. Profits prove the business is operating well. Profits validate the market.

[…]

although the goal was "Rich," I achieved it by behaving like the goal was "King." (Cohen, 2009b)

The quote supports the previous finding that having the goal of rich was important to achieve a high growth rate, which is supported in theory (Barringer, Jones, & Neubaum, 2005; Delmar & Wiklund, 2008). But the quote contradicts that the entrepreneur has to choose between either rich or king. The quote means that rich has its place as found in theory, while the existence of the term king may not reflect the realities.

The realities for choosing rich *and* king is that running a large company requires different competencies than a startup (Sine, Mitsuhashi, & Kirsch, 2006), and a tall learning curve combined with high growth creates a steep learning curve for the entrepreneur. The question of king is therefore whether the entrepreneur can learn fast enough to be the manager the venture needs (build)? (Boeker & Karichalil, 2002). And the associated question, when should the founder leave (flip)?

Neither the dataset nor the theory offers any answers on when to flip and when to build for the individual entrepreneur as the answer cannot be generalized, but the questions of rich or king, and flip or build are important as they define the development of the venture regarding size and growth.

4.1.2 Determining segmentation choices

In all the blogs the customer is the core of the vision and thereby the company. The focus on understanding the customer makes it important to define what the customer looks like. Cohen (2011) points out that *"It's tempting to launch your startup with the widest marketing messages addressing the largest segment of the market. […] But a wide net catches few fish. Wide nets contain generic statements which thrill no one."* What separates the focus segment from the rest is defined by Brant Cooper (2009a) as the pain (the desperate need for a solution) and market type. *"Severity of the pain typically dictates availability of budget, length of sales cycle, and size of market, i.e., revenue proximity. Market type determines business model, competition, marketing strategy and ultimately, cost of acquisition."*

The question then is to define how much relief the entrepreneur will give by solving an apparent pain for the customer. Cohen expands on the topic:

> *Tom wants to talk about new features. What a relief — for six weeks it's been nothing but bug reports. Real bugs, I admit. In fact, Tom had single-handedly debugged a significant amount my shitty code, even enlisting his own employees for the cause. (Cohen, 2009a)*

There seems the pain is worth solving as long as the customer is willing to participate in defining and developing the solution. The idea is common in the dataset, and an additional characteristic of the right segment is provided by Blank (2009e) as *""skunk works" project where the product developers are actively seeking alternatives to their own engineering organization"*. This suggests that the right segment can be found and sold to before the product is complete, which is supported in theory (Maidique & Zirger, 1985). The finding raises the issue of how a new venture with an incomplete product can compete with an incumbent. Mark Suster refers to Clayton Christensen's book The Innovator's Dilemma (1997) to find the answer.

> *It is often the situation that the incumbent offers a product that is vastly superior in the market in terms of performance or functionality. This is important because the customers they serve demand a product that meets their complex requirements. […] When new companies enter the market they really have no chance to initially unseat the incumbents because the performance gap is too large and the costs / time of catching up too unachievable. […] So the startups tend to focus on totally new customers. They try to capture people that didn't buy the expensive stuff in the first*

> *place because they couldn't afford it. Often the startups are actually serving a slightly different kind of customer or a slightly different market need. (Suster, 2010d)*

This may essentially mean that startups are diversifying from the incumbents to gain a position in the market place, similar to Porter's differentiation strategy applied to a segment (Porter, 1998) . By diversifying the startups are creating a niche where they compete on their own terms. According to Steve Blank the niche can take form in two forms, either as a New Market or an Existing Market. The difference is

> *In a new market when customers have no idea what the product can do, a company needs to educate potential customers about the space not the product. This results in a much slower adoption curve – the classic hockey stick. (Blank, 2010b)*

While in an existing market

> *initial sales would come from users who already understood what the product could do so adoption would occur rapidly.*
>
> *[…]*
>
> *Depending on the type of market it enters, a startup can have very different rates of customer adoption and acceptance and their sales and marketing strategies would be dramatically different. Even more serious, startups can have radically different cash needs. (Blank, 2009b)*

This makes it essential for entrepreneurs to find the segment where he can solve the biggest pain while understanding the segments market type, as the two market types demand two different strategies for transforming the startup to a scalable company. An observation in accordance with the suggestions from Ansoff (1957).

4.1.3 The use of business plans

Among the subjects there was a common consensus of the importance of the business plan. Mark Suster (2009) responds to his own rhetorical question to whether the business plan is needed as *"Short answer: absofuckinglutely. I have seen really great product people espouse the death of the business plan. Do so at your peril."* According to Steve Blank (2009i) the business plan is *"just a series of untested hypothesis (unless you are a domain expert.) So starting with the vision of your product, get out of the building, and see if you can find customers and a market for the product as specified."*

Mark Suster specifies what kind of hypotheses he is looking for when investing in new startups.

> *I'm not talking about a 40-page Word document outlining your market approach. That died with waterfall software development. I'm talking about your financial spreadsheet.*
>
> *[…] Your financial model tells a story. Let's take your revenue line. It should talk about how many customers you think you will acquire and how much you'll charge for your product. If you can't estimate the former then I would suggest you haven't done your homework before building the product. Do you really want to spent $100k building a product to discover through customer development that the market is too small? (Suster, 2009)*

Mark Suster's view can be interpreted as the hypotheses that define a startup can be made visible in one model, the financial model, as available cash define the boundaries of the startup. If a scalable startup is what the founders want to achieve the economics has to match the vision to make it viable.

By having a business plan consisting of hypothesis Sean Ellis raises concerns about executing on the basis of the plan by defining the perfect startup launch as.

> *It should start with the understanding that all of your assumptions are probably wrong. You don't know who your most passionate users will be, you have no idea how to position the product and can't understand what will prevent potentially passionate users from reaching a gratifying experience (Ellis, 2009b)*

This means you have to acknowledge that the business plan is outdated at the time you write it, which may seem contradictory as it is written to gain better understanding. But the importance of writing the business plan cannot be mistaken as all sources state the importance. Steve Blank shares a mail in his blog with some thoughts on the matter from a failed startup who did not focus on documenting their development well enough.

> *This seems so obvious, yet it must be said: write down and track the evolution of your hypotheses. It's something that's almost too easy to gloss over — keeping track of your hypotheses and the results of your customer development work are vital. Failure to keep track of our hypotheses meant we were never quite clear on what was working*

> *and what was not. This meant we had a hard time focusing our development. (Blank, 2010a)*

What we can see from the statements is that the business plan is an important tool to track the founder's hypotheses which most importantly constitutes how a venture plans to make money, here depicted by Suster through the financial model. Suster's financial model is closely related to the concept business model (Section 2.3.3, pp. 7). Both aim to explain how the ventures will create value, or in Suster's case profit. The business model is therefore a part of the business plan, and is important as it offers an overview of how value is created, and in Susters case a measure of the amount of value created through profit. A vital measure according to Cohen as it is profit that gets the company acquired.

4.2 Customer Discovery

Based on the discovery that the knowledge of a venture is a list of assumptions about the world, the subject presses the need to get out and validate the hypotheses (Block & MacMillan, 1985). Mark Suster (2010c) states that *"spending time with customers is the best way to find out what their problems are and how good your solution currently is at mapping to their needs."* But as Alam (2006) discovered, not all customers is a good match for a venture.

4.2.1 Early evangelists

The various blogs seem to lean on Moore's (1991) division between the various types of customers when defining who a venture's first customer is, which builds on the work of Urban and Von Hippel (1988). Jason Cohen defines that a new venture's first hundred customers will be.

> *Early-adopters – folk who like trying new stuff and like working with new companies who still have spark and something to prove. Folks who want to be part of the creative process and be able to tell their friends that they were there at the beginning. (Cohen, 2009a)*

Steve Blank expands some more on the definition.

> *If your startup's vision is compelling enough, these early customers want to buy into the dream of what could be, and they want to get in early. They will put up with an unfinished system that barely works to get a competitive advantage outside their company […]. They will count on your startup to listen to their needs for subsequent releases or follow-on systems that actually deliver on the initial promise. (Blank, 2009a)*

Jason Cohen confirms the statement by sharing parts of the history from his startup SmartBear.

> *I can't begin to tell you the amount of crap Tom put up with over the years. […] back then screens would lock up, reviews would inexplicably disappear, installers would install the wrong files, and occasionally we'd run computers out of memory. (Cohen, 2009a)*

This first customer who endures a problematic product is being seen as a hero, a visionary, an evangelist, or an early adopter depending on who you ask. The discovery of such a person can be seen as crucial for the existence of a new

venture, as he can help the company define the vision while verifying the product to attract new customers. Cohen continues.

> *Today your product is a shaky version one-dot-oh with bugs you haven't uncovered yet, missing 80% of the features big companies require, and with no significant documentation like case studies or proper manual or an ROI model or a large, reference-able customer.*
>
> *Today you're a complete mismatch with Lockheed Martin! But there's a nice big niche that's a perfect match: Early Adopters. (Cohen, 2009c)*

From the statement it seems important to notice that the first sale won't be to a Fortune top 500 company. The statement indicates that the venture has to find a good fit with smaller actors as the venture cannot comply to the requirements of larger companies.

4.3 Customer validation

All data indicated the importance of validating the assumptions and hypotheses made when starting a new venture. They all mention times they have failed to test the idea in the market, an experience which has been found to be common among entrepreneurs (Ottum & Moore, 1997). Brant Cooper (2009a) sums it up *"I have a sneaking suspicion that some entrepreneurs would rather work on a funded project that has no chance to succeed, than have their vision painfully rebuked at the outset."* Steve Blank expands.

> *Taking outside investment gives you options. But with this money comes temptation. Temptation to focus on growth and worry about revenue later. Temptation to stay the course when your gut tells you it's time to change. Making revenue your first priority does so many good things for you as an entrepreneur – saves cash, validates customer, and tells you if you have a real business. It's only business if you make money. (Blank, 2010a)*

The quote supports the previous claims that to reach profit an understanding for how value can be created and delivered must exist, but there is a temptation to do nothing which can be realized if money is available. According to Steve Blank (2009c) *"Startups don't fail because they lack a product; they fail because they lack customers and a profitable business model."* This stresses the need to validate the assumptions as fast as possible to get closer to the vision.

From the data two main points emerges which improves the understanding of the topic.

4.3.1 The real information – understanding by imposing cost

By now all the entrepreneurs in the dataset mentioned that they had defined an initial idea of what the company might be and a list of potential customers. It was now time to take the next step by verifying the assumptions and hypothesis. The common perception about the process in the dataset is that the only way to prove the initial assumptions are by asking a believed customer while imposing a cost to answer. Jason Cohen (2010c) puts it this way *"Even with awesome ideas, you don't know whether it's a business until you talk turkey."* The statement is an example of a common view that emerged from the dataset which can be interpreted as information given by a respondent who have nothing to lose by answering is unreliable.

The common thought among the respondent entrepreneurs is interestingly also seen in the response from the venture capitalist, but while the entrepreneurs regard it towards verifying the viability of the business idea the capitalist see it as a verification of the financial viability which can be seen in Mark Suster's (2010e) statement *"Validate that you can make money before starting. […] I believe passionately that if you don't have a financial model you shouldn't spend any time or money building a product."* This is important as it may mean that the entrepreneurs are looking for a niche to exist, while the venture capitalists are out for world domination. The two goals may not always be coherent as existing in a niche without possibilities of growth do not make you the scalable repeatable startup VC's want to invest in.

4.3.2 The customer's core problem and the Minimum Viable Product (MVP)

Among the respondents it seems that the process of validating the concept leads to the definition of an early product, but the data presses that a definition is all it should be in the beginning. According to Jason Cohen.

You shouldn't need screenshots or PowerPoint's to convince someone in your target market that what you're doing is compelling. If your concept is so esoteric that you can't describe it in 30 seconds at a cocktail party, it's either too complex or you don't understand it yourself (Cohen, 2010).

From the citation it can be assumed that the costs taken when building a product are wasted as long as the market is not interested in the product. While the interpretation might sound obvious it seemed to be a common problem among the persons in the dataset. According to Steve Blank (2009g). *"In hindsight my failure was that I executed to my strength – telling a compelling story – without actually listening to customer feedback."*

The data reveals that the process of customer validation gradually changes as more of the assumptions and hypothesis are confirmed by the buyers. Mark Suster (2010e) says *"I believe in launching with a small set of features and learning from the market before you spend too much money building out a feature rich product or before you put serious capital to work."* This means that the development of a startup is not a two step phase where the market is proven before external capital is brought in and a product is built. It seems that the process is continuous where the engineering efforts has to be delayed to as close payment as possible as it

otherwise would be tempting to execute on the ventures own assumptions when the venture should be learning.

What is being built in the process is defined by the various blogs as The Minimum Viable Product (MVP). Brant Cooper (2010b) defines the MVP as *"A product with the fewest number of features needed to achieve a specific objective, and users are willing to "pay" in some form of a scarce resource."* Which Steve Blank (2010d) elaborates to *"You're selling the vision and delivering the minimum feature set to visionaries not everyone."* As he claims the purpose of building a MVP is *"1) a tactic to reduce wasted engineering hours (code left on the floor) and 2) to get the product in the hands of early visionary customers as soon as possible".*

This indicates that the initial grand vision in some cases over-deliver compared to what the early evangelist need to pay for the product. By understanding exactly what the early evangelist are looking for the product can be shipped faster than what the entrepreneur initially believes. This is an observation which impacts the financial planning regarding how much funding is needed.

4.4 Agile learning

Through the coding it became apparent that the need of applying the learning's from the previous processes was important. According to Jason Cohen (2008) *"Your Idea probably sucks, and it doesn't matter because your business will probably turn out to be something different"*. The statement suggests that the initial idea seldom will be the idea on which the venture will base its growth (West III & Noel, 2009). The entrepreneur must therefore develop the initial idea into one where a scalable repeatable business can be built. The need of adapting is evident among all the bloggers with three subcategories sticking out.

4.4.1 Customer defining the vision

The vision was previously identified as the founder's idea for building a company (Section 4.1, pp. 30). The data indicates that the definition was right at the time, but as previously stated the vision has to evolve to reflect the new circumstances learned from potential customers. Steve Blank (2009h) reflects on the issue *"As the reality of product development and customer input collide, the facts change so rapidly that the original well-thought-out business plan becomes irrelevant"*. This indicates that a venture has to be agile to be able to learn fast enough as the more time spent developing makes it harder to respond to the changed customers need. It is therefore of the outmost importance to build the product on facts while be prepared to replace the parts that the customers are not asking for. This essentially means building the minimum viable product.

While all writers mention the importance of allowing the potential customer to define the company there seem to be a couple who mentions the need to take caution. According to Brant Cooper.

> *The danger in relying the customer's vision is that in truth, the customer is not always right. Their limited perspective and selfish (rightfully so) objectives means they will, if it is in their best interests, change your product to fit their needs. If you have several customers doing this, and you opportunistically give each customer what they're asking for, you will face an untenable situation that will prevent you from scaling the business. (B. Cooper, 2009c)*

This means there is a need to balance the initial founder's vision with the customers' vision of the offering as they may not have the same goals. Whereas the venture want to sell the technology to several customers, the customer might want to keep the advantage and have the product customized to fit their

operations (Alam, 2006). Brant Cooper (2009e) supports the idea where he says *"You must skate the fine line between holding onto your vision, while receiving input that helps shape the vision and providing the path toward achieving it."*

4.4.2 The Pivot – Adapting to new facts

The dataset revealed that the revelation of finding out that a larger subset of the idea was plain wrong after having to listen to the customer was common. According to Steve Blank (2010f), who has experienced the problem several times, *"Sometimes what sounds like bad news when talking to customers might be your finest hour."* The quote is not a unique statement as everyone in the dataset support the notion, but what is interesting is that even though part of the foundation the business is built on is shattered in an instant, they look at it as an opportunity to become even more aligned to what the customer needs. This is visible in Steve Blank's (2010h) experience of the situation where he states *"The CEO's of startups are continually looking to see if they need to make a Pivot to find a better model. If they believe one is necessary, they do not hesitate to make the change."* It can from the citation be assumed that the pivot is an important part of the life in a startup. It is the time where the company applies its learning's from the market to offer a more attractive product. An observation supported by theory where customer interaction has been found to be imperative to understand their need (Carbonell, et al., 2009; Shah & Robinson, 2007).

To get a better understanding of when to pivot Brant Cooper (2010d) defines the moment as *"This phase requires a dedication to minimum viability, and a balance between customer-driven solution and vision. If the two diverge a pivot is required"* From the quote it appears that the previous observed difference between the founder's vision and the customer's vision should be minimized by changing aspects of the vision.

4.4.3 Your knowledge is outdated – Go back to start

The pivot renders most of the information gathered unusable as the startup changes focus. According to Steve Blank

A good day in front of customers is two steps forward and one step back. In fact, the best way to represent what happens outside the building is more like a series of recursive circles – recursive to represent the iterative nature of what actually happens in a learning and discovery environment. (Blank, 2009c)

This means that a startup must excel as a learning organization to be able to adapt to new knowledge fast. By learning and unlearning as the vision evolves the startup enters a iterative loop which Steve Blank calls customer development by being a learning organization (Slater & Narver, 1995).

4.5 Entrepreneuring

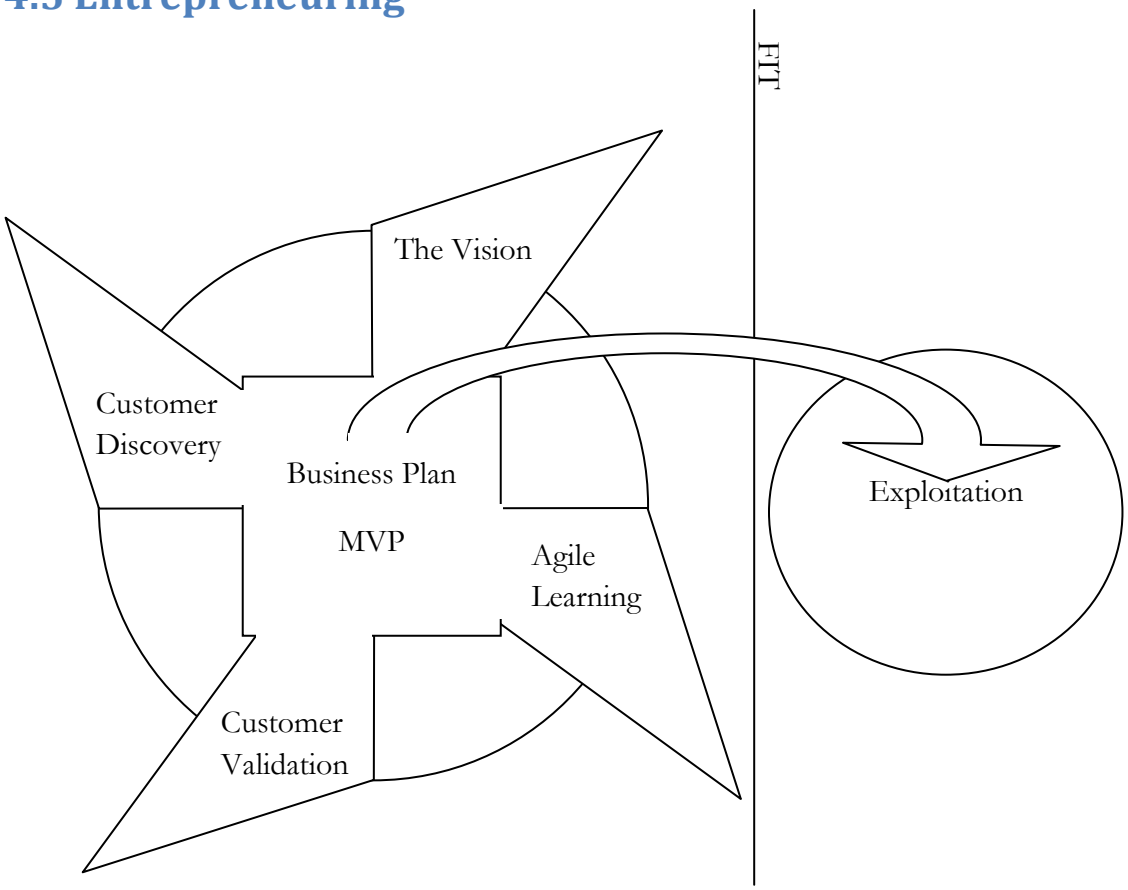

Figure 10 - A framework for entrepreneuring

From assessing the interconnections found between the nodes, and hence the categories, the iterative process in figure 10 emerged. The figure is driven by the four categories: The vision, customer discovery, customer validation, and agile learning. Each of the four parts inhibits bits and pieces common for finding fit and ensures an emergence towards fit. To track the causality in the process Sean Ellis described the process as

Each new fact adds credence to some potential pivots and reduces the viability of others. Eventually we'll need to focus on one vision, but the right vision will crystallize over time.

Even while we explore these opportunities, our current execution is very focused on the MVP needed to get traction. And the MVP maps well to each of the big opportunities we're considering. (Ellis, 2010b)

The contents of the statement was common in the dataset and indicates that the process begins with a vision of an opportunity and then continues to evaluation, similar to the model proposed by Shane (2003) and Hindle (2010).

To track, evaluate and plan for fit the two concepts minimum viable product and business plan was suggested to be employed in the dataset. According to Ellis the process revolves around achieving the minimum viable product by iteration. It also looks like the MVP is not just a part of the customer validation process, but in hindsight the physical manifestation of each step. According to Sean Ellis (2010b) *"As we validate and refine our assumptions, we need to make sure that the MVP is tracking to these new facts."* Which can be translated to the proposed model as the first step of making hypotheses about what the MVP is, the second step of validation tries to find who are potential users, the third step the validation checks the assumptions and brings improvements to the MVP, while in the last stage the entrepreneur has to choose between his initial assumptions and the customer feedback to enhance the vision before iterating again.

But as the point of the minimum viable product is only to find a product that the customers will pay the most for which can be created with the least amount of resources it lacks the feature of the business plan. As previously outlined (Section 4.1.3 pp. 33) the job of the business plan was to ensure that the fit had a greater purpose by planning where and how a fit should look like. The business plan can therefore also be found in the core of the process as each step taken toward fit changes the foundation of where the initial hypotheses used in the business plan were taken. This means the feedback from the process can bring either incremental or radical changes to the initial business plan, for which the entrepreneur has to be agile to change if needed. Two types of feedback similar to operational and strategic feedback (Maidique & Zirger, 1985).

4.5.1 The fit

The dataset suggests that fit happens when a scalable and repeatable business model with the least resource demanding product has been found which is financially viable, but according to theory and the data the fit is not a single point in time (section 2.3, pp. 6). This means that there is not either fit or not fit, but a degree of fit. The issue of defining when a good enough fit has been

found was briefly discussed in the theory, but the dataset provides additional definitions to give a better understanding.

Brant Cooper offer what may be seen as the most comprehensive definition to which tasks that are needed to be completed before the startup have found a product/market fit.

Pre-Problem-Solution Fit, *you concentrate on learning as much as you can about the problem, who are the real customers (user? buyer? boss?), and possible solutions.*

Pre-Minimum Viable Product, *you concentrate of learning, developing and testing the minimum features and functionality required to solve the problem to a degree the customer will buy.*

Pre-Product-Market Fit, *you concentrate on learning about funnels, testing messaging and positioning, and likely iterating on product and market segment in search of P-M fit. (B. Cooper, 2010a)*

But at some point there has to be a "jump" to execute the model discovered to become a high growth venture. Sean Ellis describes how a friend of his unexpectedly tested the product market fit

To wit, his site had gone down for a few hours, and he hadn't known about it. In the interim, there had been nothing but silence. None of his users had squawked or had made it publically known that the site was down […] In this case, it meant his start-up had a ways to go on iterating to finding Product-Market Fit. (Ellis, 2010a)

In the dataset the various blogs defines fit as

- **Sean Ellis***: achieving product/market fit requires at least 40% of users saying they would be "very disappointed" without your product. (2009a)*
- **Steve Blank:** *If you add one more sales person or spend more marketing dollars, does your sales revenue go up by more than your expenses? (2009f)*
- **Jason Cohen:** *find ten people who say they'll buy. (2010)*
- **Brant Cooper:** *if you have built a product that customers need and this has been validated by high user adoption or through a significant number of paid users, and to some degree adoption and retention are "running themselves."* (2009d)
- **Mark Suster:** *once you've got your product/market fit, proven your product will sell (2010b)*

According to Brant Cooper (2009d) *"Product-Market fit is an esoteric concept you only know you've achieved after you've achieved it."* The statement aligns with the numerous definitions of fit in both the dataset and in the theory (Hienerth & Kessler, 2006; Leslie & Holloway, 2006; Naman & Slevin, 1993), all which appears to be different. A general definition of fit can therefore not be extracted from the dataset.

4.5.2 The jump

When the apparently theoretical product/market fit has been reached the startup will according to the theory be close to or at the inflection point. As the graphs tell the startup will have to increase speed to reach their potential (given that they are scalable, and the processes can be made repeatable). According to Mark Suster (2010a) *"The reality is that you need to standardize many things in a company if you're to scale quickly, which is why many founders depart at the time of the transition."*

This means that the venture is not the same after the jump, but that there exist a transition before and after the fit similar to the evaluation and exploitation outlined in the theory (Hindle, 2010; S. A. Shane, 2003).

4.5.3 The known, but unknown model

The model is by no means contradicting existing findings, but rather offers context for previous literature. From assessing the model it can be found that the model is merely an extension of existing models, and that all aspects deemed important for an entrepreneurial process can be found within the model.

The steps entrepreneurial opportunity, discovery, evaluation, exploitation, and execution were found to represent the entrepreneurial process (S. Shane & Venkataraman, 2000). In the model they can be found in the four steps. The vision incorporates the opportunity as it discusses how a vision emerges from, or creates the opportunity (Bhave, 1994). The customer discovery and validation steps is similar to the step evaluation where the discussion of who the right customer are (Rogers, 1995), and fit (Naman & Slevin, 1993) can be found. The step agile learning is where opportunity exploitation happens. It is here the entrepreneur has to make the choice of how the previous findings will affect his perceived opportunity, thus incorporating what resources is needed (Brush, et al., 2001), how the environment affects the decisions, and what capabilities are needed to realize the vision. The last step in Shane's model (2003) is execution, a

step which can be found in exploitation where elements of how to grow are present.

The four steps form an iterative process similar to the process of evaluation and discovery proposed by Hindle (2010) where the tactics of entrepreneurship can be found, such as causation (Sarasvathy, 2001) and bricolage (Baker & Nelson, 2005) in planning of the vision, and effectuation (Sarasvathy, 2001) in validating assumptions. The iteration process suggested in this model differs from previous models as it revolves around the customer which according to the literature is a way to unfuzzy the initial vision in order to be able to exploit it (Koen, et al., 2001).

The model is therefore by no means revolutionary, but what is important is that it by explaining how to do entrepreneurship offers context to the literature.

4.5.4 Validation of model & Conclusion

To validate the model a Norwegian serial entrepreneur was confronted with the model and asked to plot his experience of the entrepreneurial process on a curve with the two axis time and fit. The general feedback was good as the suggested model could explain his experience with how to build a venture. However it became apparent that the process he followed to build a venture did not follow the circular pattern in the model. Occasionally some of the steps gave information which made the subsequent steps obsolete, while at other times steps were omitted without a good explanation. But the most severe changes in the degree of fit were found when essential aspects of the vision were changed to allow for a future upside. A jagged graph was therefore drawn similar to what theory suggested would happen (Hindle, 2010).

5 Conclusion

The aim of the thesis was to explore the problem statement "How is a high growth venture built to commercialize an opportunity?" with the following sub problems

- Can a model be created that describe how to perform entrepreneurship?
- If such a model can be devised, what will the steps look like

The theory review found that the field of entrepreneurship is large with a large amount of valuable information regarding how to do entrepreneuring explained through models, and best practices explained through attributes. However the field was found to be fragmented and failed to explain how entrepreneuring is performed and to incorporate for whom entrepreneuring is performed.

Four models on entrepreneuring were outlined explaining how the entrepreneur behaves and interacts. The limitations of the models were found to be that the models don't explicit explain how to do entrepreneurship. They were also flawed as they did not manage to incorporate the customer in the process. An aspect found to be important, as for a high growth venture to succeed several customers had to commit to the act of buying. An act indicating fit.

With the customer defining when the purpose of the venture is achieved the process changed from one facilitating the entrepreneur to a process to figure out how to get to a sale. From the data the four steps Vision, Customer Discovery, Customer Validation, and Agile Learning emerged describing the process. The buy indicated that a fit with the market was achieved. The problem was that any buy was not good enough to reach high growth. The fit of successful companies was found to have the two elements. One, a repeatable, financially viable, and scalable business model. Two, the least resource demanding product the most customers will buy. Meaning that the activities undertaking to reach a good fit in the entrepreneuring phase was essential for future success, an observation also found in theory (LeBrasseur, Zanibbi, & Zinger, 2003).

5.1 Limitations and suggestions for future research

To answer the research question at hand the thesis has focused to maintain an overview of the issue at hand. The limitations from the choice can be found both in the method and in the discussion.

The exploratory method chosen combined with a one way medium resulted in methodical limitations. The saturation of the nodes, and hence the categories were reliant on what the bloggers wrote. The intersections between different bloggers on some nodes were limited, meaning that some nodes were underdeveloped. To ensure that the data was sufficient a validation was performed with a successful serial entrepreneur who found the results representative for his experience. The validation was however limited as only one successful entrepreneur was questioned.

The broad scope of the research question at hand imposed some limitations to the discussion and results as well. From the findings that emerged some limitations regarding the discussion was chosen as acceptable as the thesis does not aim to provide answers for entrepreneurial issues, but aim to explore how to do entrepreneuring. This meant that some discussions were avoided as they would marginally contribute to the result. Following is a brief overview of some of the omitted discussions.

- It is suggested that entrepreneurship consists of two processes in parallel, the business development, and the technical development (Calantone & Di Benedetto, 1988; Leslie & Holloway, 2006). The model which emerged is colored by the dataset's lack of technical founders, and therefore the technical aspect. Further research is therefore needed to figure out how technical and business development interacts during the development towards fit.

- A part of the most famous high growth ventures is disruptive innovations. The subject has been avoided as the disruptive venture by definition is claimed to be the black swan breaking all rules, meaning that there is no repeatable way to create such a venture. On the other hand Christensen (1997) claims that incumbents over deliver on the customer need in order to compete, and that disruptive ventures beat the incumbent by meeting the minimum need in a new way. This means that disruptive ventures might not be so different after all, and that the proposed model can be used to figure out the need.

- Sales are what generates profit for a venture, but at the same time how to sell are missing from this thesis. The available literature with entrepreneurship in mind is limited, but there is a wide range of soft

literature available. As sales does not directly describe the entrepreneurial process but is a part of it the thesis offers limited overview of the topic.

The limitations affect the ecological validity of the model, but at the same time stress why it is important to connect the literature to a practical model of the entrepreneurial process. The wide range of subjects which can be connected to the model is evidence of what such a model can offer.

5.2 Implications for theory

The emergence of a model which explains how to do entrepreneuring raises the question of where the theory is heading. By coupling theory with a practical process it can be argued that both future entrepreneurs and researchers can benefit as a practical model will provide a general context for future findings while revealing where further research is needed to improve the success rate for entrepreneurs. I therefore suggest that a discussion should emerge to discover if the aim of researchers and entrepreneurs can be aligned to provide value for both parties.

5.3 Implications for future entrepreneurs

The findings in this thesis may hopefully prove to be of interest to the future entrepreneur as it offers a practical process backed by data on how to perform entrepreneurship. The suggested model comes with limitations, but if researchers can agree on how a practical model for entrepreneurship should be built it would be of great value for future entrepreneurs as it will limit the need of trail by error.

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