Cycles and Complexity in the Technological Start-ups
Juan Roure and Jordi Collderram
Expansión
30th March 2001

There is no doubt that the so-called "new economy", which has resulted from the extension and application of communication and information technologies (CITs) and from the widespread use of the Internet as a chief network, is creating an economy full of opportunities. Not even the stock market downturn of the so-called "tech stocks", something which has been happening since the middle of the year 2000, the turnaround in economic expectations, the low levels of e-commerce activity in specific sectors or the failure of some emblematic Internet icons have brought about an alteration of the objective and structural conditions which are making this new economy possible. Many of these opportunities come from the relaxing of entry barriers in many sectors and the possibilities to integrate different links in the value chain of many business processes. Just six years ago, many doubted the potential of the Internet for business development. Today we can confirm, however, that the said potential is here and it is here to stay. A different matter is whether its enormous possibilities have been fully exploited.

Indeed, the level of approval of the markets and the maturity of the technology have still not reached the "standards" to which we are accustomed for the development of new businesses in "traditional" sectors. From the point of view of e-economy enterprise initiative, a first effect of these fledgling environment conditions, which are typical of the first wave of diffusion and application of incremental and radical technological innovations, is the lack of business reference points and business models. This places many potential and emerging entrepreneurs at a clear disadvantage.

An additional effect of this process is the lack of quality enterprise initiatives. Along with the problems of maturity, we need to add the fact that the technological start-ups imply different investment, exploitation and growth cycles to "traditional" businesses. For example, this kind of start-ups require a very efficient management focusing on the first stage of pre-launch. Among other things, prior to launch, it is critical to invest in the development and generation of a technology which will allow operations to be carried out with sufficient guarantees regarding reliability, and to create a value proposal related to a segment on which the business is to be focused.

These factors, which are quite complex if we compare them to the equivalent requirements in more traditional businesses, are essential in this kind of initiative, since they constitute the fundamental route to attract customers and bring about a differential and sustainable competitive advantage. Another source of complexity in the implementation of technological start-ups comes about through the need for growth: they are businesses which need to generate quick growth in those areas in which they compete. In this kind of company, quick growth is the passport to the "window of opportunity", and thus to the generation of the critical mass of activity on which the
business can be consolidated. Consequently, this type of project has very high requirements with regards to the financial resources necessary to operate "in a vacuum" until the goals (which sometimes have a global scope) are reached.

BUnder these conditions, obtaining the said financial resources is an additional source of complexity. Indeed, the continuity of the project depends on the capital injection in the successive rounds of financing during the expansion phase. In short, many of the serious difficulties which some Internet based start-ups have had to experience, and which in some cases have ended in resounding failures, seem to indicate that the enterprise teams have been unable to overcome the sources of complexity inherent to the initial stages of this type of project. Another source of problems has been the role taken by some "novice" investors who have experience in the financial sector but who have little knowledge of the singularities of this enterprise process.

Finally, although not less importantly, the evolution of the securities markets and the economic expectations over the last eight months have greatly affected the possibilities of many projects to capture the necessary resources just at the time they needed them most. This has been particularly true in Europe. Unlike the United States, where many projects had fluid access to capital resources offered by venture capitalists and where many were able to float on the stock exchange prior to the market downturn, in Europe a great number of business projects are still at the beginning or halfway through the development cycle.

Unfortunately, many "good" projects, which had gone about things correctly, have now been indiscriminately outcast along with "bad" or "bubble" projects which were practically condemned to failure from the beginning.

This situation ought to teach us about the complexity involved in this cycle of the technological start-ups and also allow us to increase the possibilities of future initiatives.

The Question

Questions:
F1. Is there a prototype new economy entrepreneur?
F2. Is it increasingly difficult for a start up to be successful?

Arturo Callau i Berenguer, Manager, PricewaterhouseCoopers
F1. To typify new economy entrepreneurs would be a laborious task. Perhaps we could attribute some common characteristics to those entrepreneurs who have been successful, but the fact that one may have these characteristics does not ensure success. Perhaps the most important thing is to have an innovative and creative spirit, so allowing opportunities to be found where previously we only saw disadvantages. After this, having contacts in order to attract exceptional staff to the team and in order to obtain "unlimited" financial resources, is also crucial. I would also add vision, persistence and leadership skills within an ambiguous and continually changing environment. Finally, one needs to be able to sell ideas in order to convince all the stakeholders involved in the project, and one must clearly indicate the strategic objectives and the direction of the
The success of a start-up is as difficult as before, since business opportunities continue to exist. However, those projects searching for initial or increased financing may face more difficult moments now than those they would have faced a year ago, since the financial markets have become more selective due to the situation on the stock market. Investors are currently only looking for projects which can ensure a return on investment, and no longer gamble on mere "ideas", however much they believe that these may one day become large projects. Apart from the financial aspect, there are other factors which can condition the continuity of the start-ups, such as successfully reaching the critical point in which the start-ups stop being a small group of entrepreneurs and become a structured organisation which ought to ensure the profitability of the investments and be scalable in order to accommodate the expected future growth. Finally, the business model ought to be innovative and difficult to imitate, with clear and long-lasting competitive advantages, although this may now be rather more difficult than before, since many good ideas have already been tried and some of them, unfortunately, have disappeared after not being able to ensure the revenue necessary for growth.

Juan Roure, IESE Professor

I do not believe that one can speak of a prototype. The motivations and expectations of new economy entrepreneurs are similar to those of entrepreneurs of other eras. Perhaps we could speak of some singular attributes for current times: for example, they need to be extremely competent in putting together a team of members with whom to share the project and in negotiating and structuring alliances with partners. Equally, they need to have an enthusiastic but realistic vision of the business and ought to be able to transmit this in order to attract the best collaborators and in order to feel comfortable in international multicultural surroundings practically from the beginning.

Difficulty and ease are relative. It is obvious that we are seeing more opportunities associated to technological innovations, to the diversity of the needs of the market and to globalisation than ever before. But it is also true that these opportunities have never before had such short lives. Hence, speed in seizing the opportunities and finding the resources is critical. It is also true that more professional approaches are becoming increasingly important due to the growing complexity of the technological businesses and to the high level of global competition which exists between technology-intensive or Internet-based sectors.