

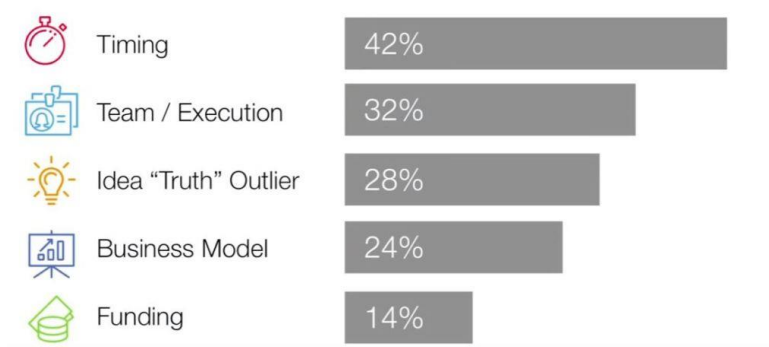
Challenges Faced by Start-ups During Product Development

Start-ups are the new engines of growth for the world. They have created a new eco-system of venture capitalists, angel investors, seed investors, due diligence and given rise to terms like “unicorn” – the term used for start-up companies which have reached a valuation of US\$1 billion or more. This is such an uncommon thing to have in a small company that it can only be a unicorn! Yet, there is a list of companies each year which have not even reached the 10 year mark in their operations but are sitting on gross revenues of US\$1 billion. As per an analysis done by Crunchbase data, a significant US\$66 billion was invested in unicorns in 2017, which was 39% more since last year.

So what is it that makes these new companies tick?

Reasons that Start-ups are Commanding High Valuations

1. Vision – Most start-ups today are a result of a small gap that the founders saw and found a way to fill it. The vision has to be of finding the core issue, creating a product quickly, more quickly than anyone else can. They also have to envision the idea to action revenue and target market to be successful in marketing the idea to potential investors.
2. Speed and Agility – Being small entities, start-ups can remedy their mistakes quickly and change the course of action much more quickly than companies above a certain size. This is easy because the founders are open to ideas, suggestions and ready to agree to the fact that they might be wrong and will have to change their manner of working accordingly.
3. Determination – It is the persistence of a new founder that has given rise to the 1 minute elevator pitch which pushes him to justify and present his ideas and creation to appeal to the potential investor.



4. Timing – This is one of the biggest reasons as analysed by successful investor, Bill Gross, after comparing few of his own companies and other start-ups. In one of the TED talks, he enumerated the below points as the basis of success of start-ups. Through his start-up accelerator IDEALAB, he has launched 150 start-ups and 45 of them have gone public or acquired. He showed that nothing can stop an idea whose time has come. Companies like Uber, Airbnb and others are testament to the free, independent usage of convenience that

has made them into unicorns in a short period of time. Thus launching a start-up at the right time can make a big difference. It also gives the first mover advantage.

5. Team/Skills – More than experience, a start-up is made of the combined skill-set of the team members and their ability to network and get their work executed. A new firm will always require maximum support and contacts it can get.
6. New Product – Start-ups achieving the unicorn status are usually the ones with a unique selling proposition. Airbnb for instance filled the empty space between low motels and expensive hotels by bringing to the fore, empty unused houses of people in cities and locations where tourist could rent the accommodation and live comfortably and get a legitimate feel for the location and city rather than a sanitised hotel room. It solved everyone's problems – the tourist who was saved of loads of money to spend on hotel bills, the renter who could utilise his empty accommodation by earning more than the rent and it is companies like these which are disruptive in nature. For creating a disruption, you have to provide a service which has not been thought of before or create a product that will cater to new needs and be different such that no one else can copy it easily. It has to be unique or cheap in terms of engineering to retain profits from it for a long time before competitors can understand its blueprint.

To do this the Innovation and R&D wing of start-ups has to be very strong. Creating a new product with limited budget and constraints in test runs can be challenging. So why is it that all start-ups with new product ideas do not succeed?

One major reason is creation of the product faces numerous hurdles which can throw off the R&D efforts. Most start-ups end up focusing on the marketing and consumer strategy before the actual product is even strongly entrenched in the market.

Reasons why start-ups struggle with innovation

As per an insightful article by Mark Roberge, full-time professor at Harvard Business School and former SVP of Global Sales at HubSpot, there are 3 main reasons why start-ups fail in innovation –

- Start-ups at later stages become over- confident on their read of the market and think they can get it right the first time.
- The executive team feels the pressure to keep pace with the 100% annual revenue growth and needs to throw all their effort in keeping up with the pace.
- Investors put pressure on the company to keep pace with revenue growth expectations, despite a massive influx in new unpredictability.

Thus product development suffers and innovation is lost at the hands of greed for quick growth.

There are also other problems which the start-up faces for product development. Let us look at the process of product development in detail first.

Of his many failed experiments, Thomas Edison once said:

"I have learned fifty thousand ways it cannot be done and therefore I am fifty thousand times nearer the final successful experiment."

Product Development



Product Development is a complex process which requires the above steps in some form or the other. No product is truly created without anyone of the above steps. They might occur simultaneously or in a different order depending upon the type of product but they will happen for the product to be developed.

1 & 2) Idea Generation and Idea Screening

Where hundreds of Ideas are floating around at any given time, the basic premise of this step is to eliminate the ideas which cannot work in practicality or are too expensive to be created. Idea generation process requires the founders and core team members to sit down and build a list of workable ideas that are require the combined skill-set of all the users and the technical skills to determine what exactly is possible or not possible. The R&D team is involved from the word go. The Idea sources can be either internal or external. A company can do a feedback form or a market research to understand the gaps in the market along with a survey of distributors, suppliers as well as competitors. This is an external source of Idea generation process. The internal process is to come up with a problem and try to find solutions to it. Once a long list of Ideas is created, the team will start eliminating the ideas on specific criteria and will finally come to one or two core ideas which can be built upon into a product.

Idea screening is also done at the same time to filter out the best and most workable ideas.

3) Concept Development and Testing

Here the product idea should be equal to a new product. Stating the product idea in meaningful terms for the company is essential. Also, using the idea points into a proper structure to create a service/product.

There are various steps under this stage - **Concept Development** and **Concept Testing**. Concept development will look at applying the idea into a possible problem as a solution. The marketer has to look at the product as an alternative solution to various problems. Concept Testing requires the idea to be tested with the target audience either physically or symbolically. Questions like consumer appeal, usability, reliability of the test and various practical solutions have to be explored.

4) **Marketing strategy** involves creating a marketing strategy for the new product based on the current status of the product development. The strategy looks at the required target market, brand, value proposition, with their market share and profit has to be defined. An outline of the product line, pricing distribution and marketing budget have to be planned along with the long term sales and growth prospects along with the marketing mix strategy.

5) **Business Analysis** requires a product concept and marketing strategy which have to be defined by the company to the target segment their product make the marketing mix and a review of the space cost in pricing projections for the next few years have to be defined. Once the acceptable limit of profit and volume is fulfilled the product can move to the product development stage.

6) **Product development** - Now the product which was as yet or blueprint on the drawing board has to be built into a prototype, once the business test is passed. The physical product has to be created to form a workable prototype in this stage. The R&D and investment goes up as different versions have to be created over a period of months and years along with safety test and various other certification tests have to be done at the stage itself. This stage might also require actual customer product testing

7) Once the product has gone through various situations of testing and creating, the **Test Marketing** comes in there with almost ready prototype of the new product. The marketer and the product team work hand in close coordination to understand the expenses for workability, the test, marketing positioning and various other aspect of marketing the product.

8) The last step is **Commercialization** where the decision to launch or not to launch at this point of time is taken. Commercialization stage means founders are completely confident of their product and are willing to spend large amounts and advertising and sales promotion.

Challenges to A New Product Development

Social Challenges – A new product is specifically for meeting certain goals and to fill a gap of issues. While some products might be very successful in certain countries and cultures, they might become an issue in others due to differences cultures, habits and preferences.

Legal and Regulatory Challenges - We had taken the example of Airbnb which is actually filling the gap of empty houses and low cost accommodation demanding tourists. However what the founders could not even estimate was the fact that people would give up their original houses to be able to rent it out on Airbnb. This has brought a crash in the housing market in New York and has led to people moving out of good localities to lower income ones so that they can rent out their apartments to tourists. It has created a pricing crash in the housing market and has become a legal as well as ethical issue for the Airbnb founders.

Distribution Challenges – While certain product might be very fruitful to specific countries and societies, the current status and infrastructure of some other countries might not allow the product to actually deliver what it promises. Walmart is an example of huge stores and warehouses catering to the retail customers however it is difficult to take off in India where and small mom and pop stores are commonly prevalent for small needs.

Identifying Customer Pain Points - Companies with corporate without any clear idea or having a hazy picture of the need of the product will never be able to address the real needs of the customers. Identifying these pain points in itself is a difficult step as what may seem obvious is not true and one may end up missing the forest for the trees. Research as done by Calantone and Cooper revealed that the number one reason of start-up failures was lack of attention to the real issues of customer.

Effective Product management - Not having enough data on the competitiveness and efficiency of one's product, start-ups fail to organise and define the productivity strategy and main cause of failure is actually the interpretation of the product Idea. Most products tend to fail even though might be technically superior because they fail to solve the actual problem of the target segment and are unable to convey the product message clearly.

Product architecture - Companies take a wide range of software's and capabilities available to be used as a base of the product. Technology however can become a limitation due to dearth of cash flow. Sometimes companies might use new technologies to be part of the new breed of adapters but might be unsuitable for the functionality of the product.

Market Size - Sometimes the founder and the development team might over-estimate the market potential for the product in meeting the business goals of the company. No founder or start-up wants to be stuck with a product which no one wants to buy. After spending significant amount of time energy and cost on developing a product it is important that it gets to a sizable market where one can reap the benefits of breakeven point and then start making a profit. Instead of estimating the market size through rudimentary methods like market research, it makes sense to get an expert to help you determine the market price, the market structure and the geographical locations where you can find a good sizeable market.

Problems Specific to Start-ups

Start-ups are in a unique position as they have the ability and the skill-set to get things done yet they lack the experience and the capital to really take off the ground. It puts them in a precarious situation as to how you can utilise the available resources and get the work done at an affordable rate to develop a product that is new and will change the market forever and create a disruption.

1. An Overcrowded market

All companies are sometimes pitching for a similar product or their existing product in the same lane as the new company. Creating a niche for your product is what takes time and it is very difficult for a Start-up which first needs to create credibility in the mind in the consumer.

2. Funding

This is one of the biggest difficulties of start-ups in creating a new product. New product development is an intensive process and requires iterative changes to a new product prototype which may or may not work from ideation to commercialization. The steps involved require funding because technical skills have to be hired according to the required prototype, also the marketing plan and consumer insights need to be collected from the stage of ideation and marketing strategy. All this requires extensive legwork and funding and falling short in any one of the steps will put the entire process in jeopardy and the entire project will be in danger.

3. Sales & Marketing

There are some very unique statistics on the businesses created by start-ups about 50% of small businesses fail in the first 4 years and 76% of small business owners grapple with sales and marketing issues to showcase their product.

4. Lack of Experience

One of the biggest problems in start-ups is lack of experience and over-confidence which does not tell the founders where to look out for while inflating cost of acquiring a customer can be very different from what it has actually been estimated. Examples of building a good social networking

site, fancy product line, marketing mix and packaging sometimes misleads the estimates of demand from the customers. This over-optimism can kill the deal and it slowly becomes an expensive prospect to maintain the company and run the operations when compared to the lifetime value of acquiring a customer. The cost of acquiring the customer has to be lesser than the price to be able to acquire your customer than what he or she will spend on buying the product in a lifetime. Majority of entrepreneurs fail to see this as a long term goal and just tend to focus on the current sales. Venture capitalists fail to focus on this number and plan for such numbers hence the strategy is largely missing this critical aspects of building a relationship

5. Shape of a **Business Model** is a very important and difficult to grasp concept unless it is actually done creating a business model it seems easy on paper but is equally difficult in real life the important questions that a business model should answer or is there a scalable solution to acquiring customer can these customers be monetized at a significantly higher level than the cost of their acquisition cost of acquisition should and tell the cost of sales marketing operational expenses divided by the number of customers that are closed up or acquired during a specific period of time the lifetime value of customer can be estimated by looking at the gross margin associated with the customer which is net of installation and operational cost over the lifetime

6. Management teams are one of the biggest reasons for start-ups to say specially in a new product development area they are awesome week on strategy and in the building a product that no one really uses or cares about the efficacy of a founders team is at the ideation stage about the vision that they bring to the table and the whole purpose of existence of the company which has to be translated into a product that can go to the market and pass the validation and verification to the consumers. However, a weak management will be poor at execution which will be lead to issues with the product which will not get built on time of will not be correctly belt.

7. Capital efficiency is one of the biggest learning from the failures of new business development. In a start-up the important thing is to recover the cost of building a product by building a strong loyal customer base which can recover its costs under 2 to 5 year cycle. This can definitely differ from industry to industry and a niche product area also. Other problems might include product failure that tends to fail the purpose that it was created for failure to find a fit in the market.

Conclusion

In conclusion most of the start-ups need to focus on the business development aspect before the acting go to marketing and social media chattering of the product it is been in fashion to talk about start-ups with 90% failure. Interestingly, a global investment firm based in Boston by the name of Cambridge Associates tracked the performances of different venture investment between 1990 and 2010 with 27,259 start-ups and realized that the real percentage of failure in capital venture that started and actually failed was not more than 60% even in 2001. Companies which are start-ups are defined as failure when it provides less than 1 x of return to its investors.