Sifted \ Reports

Starting up smart

Must-have advice from founders to the next generation

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Starting up smart

Must-have advice from founders to the next generation

Ever wondered what it's like to launch a new business? Then you've come to the right place. *Starting up smart* is a Sifted Intelligence report sponsored by Google Cloud that goes directly to founders, business experts and investors to hear about their successful — and unsuccessful — startup adventures. It tells the stories of those who survived to get great web or mobile products off the ground, while presenting marketing and technology strategies for getting (and keeping!) those vital first customers, and preparing your company to enter the post-startup phase. The end result is a startup field guide — a "how to" for building a successful, scalable business.

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Q&A with Google Cloud's Sarah Gerweck

"A startup is like guiding a rocket ship"

As Technical Director in the Office of the CTO at Google Cloud, and as a former startup founder, Sarah Gerweck has witnessed the dizzy journeys of countless companies. Sifted talked with Gerweck about how founders can navigate the many pitfalls of startup life — and asks her what she'd do differently if she donned her founder's hat again tomorrow

How should founders react if their best-laid plan [i.e. their go-to-market strategy, or GTM] is not working?

The first thing I would say about this: in a startup, things are never going to go quite to plan. If you're an early stage company, you need to be really experimental. This is why getting customer feedback is so important. You have to be opinionated about where you want your product to go — but you also have to be flexible. This is a really difficult dance for founders but I think it's crucially important to take a position that doesn't lock you onto a given path. When things aren't working, you need to be willing to use that flexibility to really ask why.

> **"You have to be opinionated about where you want your product to go — but you also have to be flexible. This is a really difficult dance for founders."**

Understanding customer needs is an essential part of crafting a GTM. What are some of the key data that young companies need to collect?

It's important to understand that data requirements change during a startup's life. When you're talking about the bootstrap or seed stages, you likely don't have the money to do massive market research. Early on, finding a small set who you can go really deep with — whether this group includes an investor, a mentor or someone else — is critically important. You're looking for the textures of how people feel about your product. You're not going to be very metric-driven if you're only talking to a handful of people — but you will have enough to distil hypotheses.

As you get further along though, it's important to understand your customers holistically (How often are they reaching out to you? How often do you have to give them support? Questions like this). The earlier you start thinking about these things, the better your foundation for later investment stages. As you get a couple of fundraising rounds in, your execution becomes more important than your initial startup idea.

The startup journey is inevitably full of ups and downs. What are some of the essential decisions an early-stage founder needs to get right?

I think of the early-stage as a bit like trying to guide a rocket ship. The little decisions are going to have a huge impact on its trajectory. And yet I think it's important not to be too caught up on the small details, either. How are you going to stay nimble? How are you going to make choices that put you on a given path but don't lock you in? I think a lot of this is choosing the right culture and getting the right people around you who are going to bring a broad mix of perspectives. This will give you the ability to move fast without being careless.

Because the clock is always ticking on your startup. Get opinions and then trust your judgement. Be ready to make pivots as required. There will be times when you feel lost; when you feel in over your head, or suffer from imposter syndrome. Being emotionally honest with yourself and refocusing when you have to can help you keep going.

> **"Be careful what you commit to: some decisions aren't easy to undo."**

There are so many online tools to help founders today. How do you choose between them (and not get overwhelmed by the options)?

First of all, I would be talking to other founders about the tools they use. I'd also be doing my own research, with the goal of identifying tools that are going to set me up for flexibility and growth. Be careful what you commit to: some decisions aren't easy to undo; things take on inertia.

The more central something is to the success of your business, the more time I'd spend on getting it right. Then, when you make your decision, get behind it and move on. The next thing will be coming.

You've walked the founder journey yourself. What were some of the key lessons you took away?

As I've said already, getting the right mix of people is the most valuable thing you can do. Your early hires will have a huge impact on your startup culture and this will persist for years — even if or after these people leave.

As a first time founder, it was also really easy to worry about too many things. I spent the first five years over-working and feeling anxious; it was very unproductive. If you're not clear about what's important, and are not willing to let the other things go, you will become reactive or emotionally unavailable.

If you could do it all again, would you change anything?

There are a million things I'd change. But the most important thing for a founder is to be present and committed. The main thing I'd do differently is to work harder at living a balanced life. When you're in a healthy place, your ability to be a leader is so much stronger. Emotional health is one of the most important founder traits and the thing that's going to allow you to stay focused, agile and open to new directions and ideas.

Finally, why did you end up at Google Cloud?

We've all heard about how public clouds are a generational shift in computing, both in infrastructure and collaboration. And of course I was drawn to Google's technical leadership in many areas like data and AI. But if you've been paying attention, I value the environments in which this all happens — the people and systems that drive innovation and execution.

I was excited by an environment full of interesting challenges and interested people. I loved the way the culture encourages those people to simultaneously go deep and collaborate widely. With Google Cloud, I saw the opportunity to share both this technology and this perspective with the world beyond Alphabet. The chance to work in an environment like this was just too good to pass up!

Starting up smart

Introduction

The rocky road to riches

To survive, budding entrepreneurs should balance time spent building with time talking to customers

The early days of any startup journey are hectic and exciting, sure — but also kinda terrifying. If you're launching a business, the odds are stacked against you: nine out of every ten companies fail. Money is a constant worry for a founder: according to data service CB Insights, a lack of dough is the top reason why startups fail. Similarly, PwC's European Startup Survey identifies customer acquisition and sales as the most significant obstacle that a startup faces.

But in their haste to get paying punters through the door, many budding entrepreneurs have put their horse before their cart, according to Lucy Heskins, an early-stage startup marketer who runs UK marketing consultancy Oh Blimey.

"A lot of startups like to romanticise Silicon Valley," she explains. "They've ingested the lingo. 'We're product-led. We've got a tech stack, a playbook' — people love a flywheel too. 'We're going to do a monthly subscription model', all that kinda thing.

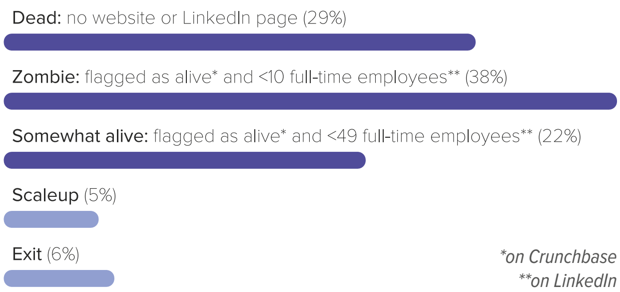
"Well, actually you have to talk to people to understand what they want — if you're selling to HR managers, for example, who buy on an annual basis, your monthly subscription proposal is going to be a bit jarring."

For her, what distinguishes success from failure is rarely the quality of the idea itself but how well the founder does their prep work. Before they think about anything else, a founder needs to solve the most important riddle of all: Am I pitching something that enough people are prepared to pay for to keep me in business?

89% of European startups fail

Startups by category of activity

Source: *Stryber*



> **"Before they think about anything else, a founder needs to solve the most important riddle of all: Am I pitching something that enough people are prepared to pay for to keep me in business?"**

WHERE DO YOU EVEN START?

Newbie founders should be asking themselves two fundamental questions:

1. Who am I selling to?

You need to understand who will benefit the most from your product. When it first released its product, Monzo marketed its offer for the under-30s and under-20s. It targeted people that wanted to do everything on their phone, including personal banking. The rest is history.

2. What's the plan to reach my customers?

You need to learn how to find them. The ways in which you do this, via so-called acquisition channels, are numerous — it could be trade shows, ads, email marketing, targeted blogs. "The most successful startups focus almost exclusively on one or two channels that they absolutely master," says David Odier, founder of Launch Mappers.

WHATEVER YOU DO, DON'T SKIMP ON CUSTOMER RESEARCH

It doesn't matter if you're selling HR software or semiconductors, heavy customer research at the very beginning is the only way to go. "It can't be emphasised enough," says Heskins.

Before they can think about launching, founders need information about their customers' priorities, their challenges and their ability to pay. Collecting this means going out to talk to people. "The longer you can spend hunkered down on customer development, the better," says Heskins. "Though let's not forget the glaringly obvious: some startups only have three months' cash in the bank."

Aim for at least 15 interviews a month at the start, Heskins recommends. But, really, there is no limit. Pennylane, a French accounting startup, interviewed 150 founders and agency owners, its core target groups, to find out who its customers were. "When they unveiled their final product, almost all of the companies they had interviewed became paying customers," says Odier.

Taking into account the complexity of building a successful go-to-market strategy, one investor says to remember one thing above all else: discipline. "Make a structured approach an integral part of whatever you do with your startup. These efforts will be well rewarded," says Lyubov Guk, founding partner at London-based Blue Lake Startup Accelerator.

"Pennylane, a French accounting startup, interviewed 150 founders and agency owners, its core target groups, to find out who its customers were."

Pennylane

COMING UP

This report, a cheat sheet to startup success, comes packed with insight from founders who've walked the rocky road.

In chapter I, we dive into the dicey early days of a startup, highlighting common mistakes and how to avoid them. Our interviewees get candid, with one telling us: "We spent the best part of six months noodling around with an idea, building an app and spending money on it. When the time came to launch and do some beta testing, it was tumbleweeds." We also talk to entrepreneurs and startup experts about how to surround your company with the best advisers and how to make your first hires.

Chapter II looks at launch phase and how founders figure out what to charge, while discovering the right strategy — and tools — to attract their first customers. We hear about the long and winding road for business-to-business companies to secure paying customers. We also hear about the lengths some founders are prepared to go to get ahead of the competition ("I gave a TED Talk. I went to any conference that would have me," one founder says).

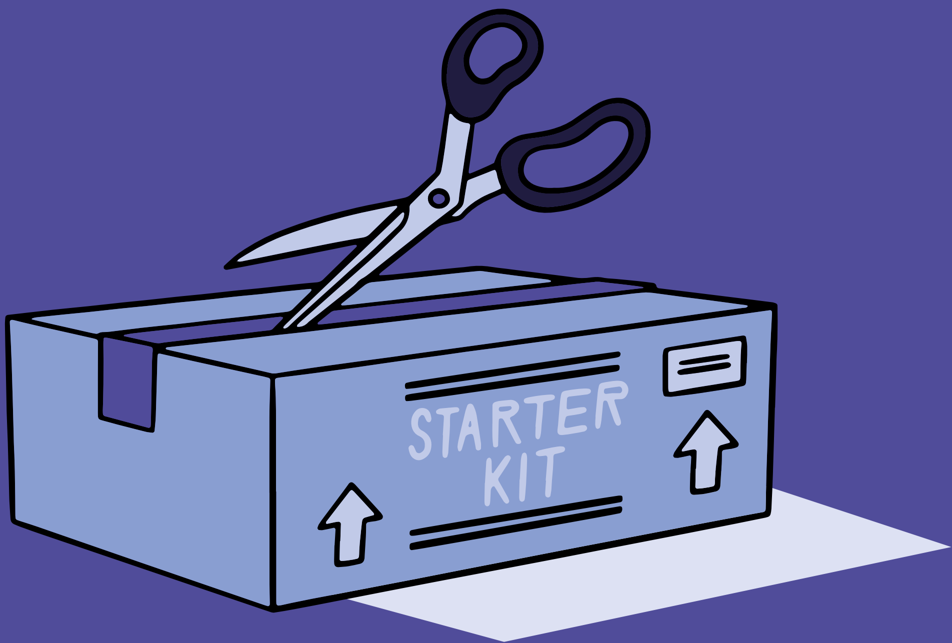
In chapter III, we explore the best strategies and technologies for keeping customers onside — and set out what your company needs to do before entering the post-startup phase. Then in the final section, we distil some of the top practical lessons that our founders have learned along the way. Many were roughed up at some point along their startup journey — happily they survived to tell the tale.

Starting up smart

Chapter I

From MVP to market-ready

We navigate the tricky early stages for a startup, highlighting common mistakes and how to avoid them

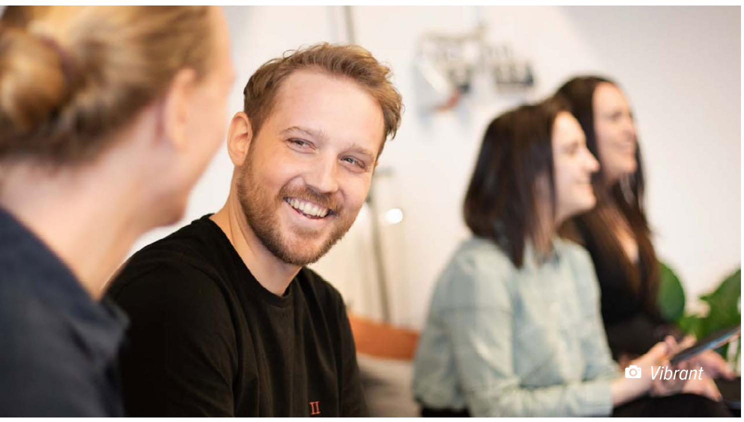


Two years ago, Kasper Enggaard Krog was leading a Danish digital learning platform dubbed the Spotify of textbooks. Lix Technologies had raised €10m in funding from heavyweight Nordic investors, built a catalogue of more than 600k textbooks (surpassing Amazon) and signed agreements with US publishers to expand internationally. Then it all fell apart.

Looking back, Enggaard Krog says he made a litany of mistakes (or "fuck ups", as he likes to call them). "We didn't hit product-market fit. We had two different company cultures going on, which were fighting against each other. I analysed the market too late and we scaled prematurely. We raised too much cash over too many rounds and quickly had a dysfunctional cap table. And we were hit badly by seasonality. It was like selling Christmas trees."

After a much-needed funding round was halted by the pandemic, Enggaard Krog closed down Lix in October 2020. He's determined to take a new approach with his latest startup, the mobile payment firm Vibrant. The team has built an app that turns smartphones into card readers, giving SMEs an easier way to accept contactless payments. Before even starting work on the minimum viable product (MVP), Enggaard Krog was out, knocking on doors.

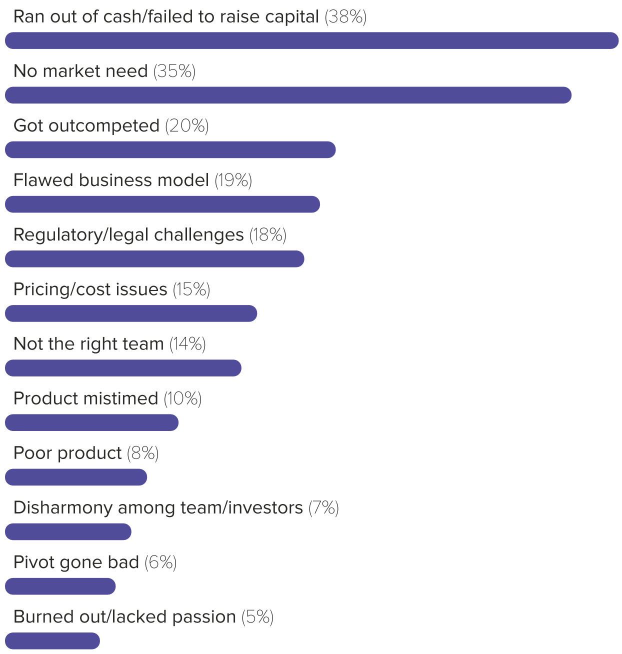
"I believe that you should nail the commercial model and early customer validation before you write a single line of code," he says. "There is only one truth out there — would your potential new customers put their money where their mouth is? If they won't, don't do it. It's not a real pain point."



Most startups fail after running out of cash

Top reasons startups fail, based on 111 startup post-mortems

Source: *CB Insights*



LAYING THE RIGHT FOUNDATIONS

The early days of any entrepreneur's startup journey will depend on a multitude of factors. But most agree it begins with an idea, which forms the basis of an MVP. It's an early version of the product, which allows the founding team to collect feedback from users before diving into a full-scale build.

The most common mistake Alexandra Balkova, partner at the accelerator Startup Wise Guys, sees is entrepreneurs underestimating and underresearching the market and/or product need. "That's the downside of passion," she adds. "Founders tend to fall in love with their product and believe that what they're building is so beautiful that people will adopt it. Just building a 'nice to have' is something that kills a lot of businesses."

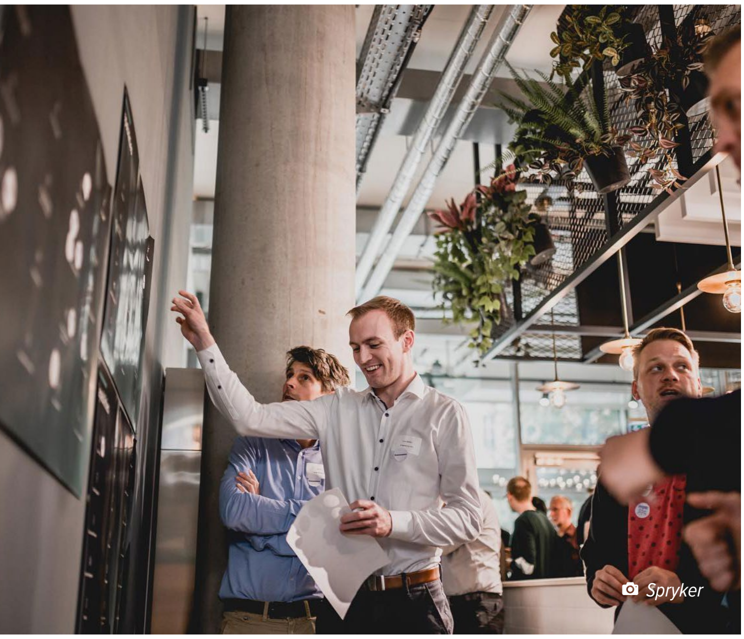
The flipside of not spending enough time researching the market is spending too long. Spanish VC firm Adara Ventures invests in early-stage deeptech startups in

Spain, Portugal, France, the UK and Ireland. Partner Rocio Pillado says she's worked with founding teams that spend years on their MVP. "They feel like they have to build the perfect technology and get a lot of patents before going to market. Then they realise there are a lot of things to change," she says. "I think it's more of a European mentality. In the US it's the opposite. They go to market without an MVP, without a product sometimes and when they get their first sale, they start working on the product. They're not scared of feedback."

Meri Williams, former CTO of Moo and Monzo, says that extra build time can create more work down the line. "Building too much — not taking the minimum part of [MVP] seriously enough — is a common mistake I see a lot," she adds. "It's not long before you have to think about maintaining all of those things. Sometimes [an MVP] is just a web page to see if people will sign up to the concept of the thing that you say you're going to build."

THE POWER OF POWERPOINT

In Germany, the first MVP of Boris Lokschin's company Spryker Systems was a PowerPoint slide. The cofounder and CEO launched the ecommerce solutions business in 2015. Since then, he's built a team of 700 employees, working with customers across 200 countries and closed a $130m Series C round.



Spryker

Sifted asked 25 founders about getting their startup off the ground...

40% said first-party data is "extremely important" for developing a customer-centric product

68% said automating data processes/workflows to get more value from their data is a high priority

64% said they look to their tech partners to help better understand the market and end users

only **10%** said they were "extremely confident" in their go-to-market, or GTM, strategy before launching

"The good thing about selling to enterprise is the sales cycle is long (six to nine months), so you get a lot of time in the background to actually build the product," Lokschin says about his MVP's humble beginnings. "We got tons of feedback. I think it's super important that you as a founder stay very close to the sales process at that stage because you will learn a lot. The product-market fit is very fragile at the beginning, and you need to feel it. You need to see which messages resonate."

While negative feedback can be hard to hear, it's especially valuable in the early stages before teams have spent significant time and money on something that's not viable. That's a lesson Eamonn Carey, general partner at Tera Ventures and ex-managing director of Techstars London, learnt the hard way. Back in 2008, he cofounded a mobile education company that aimed to gamify SAT and GMAT test preparation in the US, with prizes such as free cans of Coke for educational attainment. The brands and universities loved the idea.

"What we didn't do was speak to any students," he says. "Turns out, hardly any of them had a smartphone in 2008. And the ones that did, really didn't want to do their homework on it. If we'd spoken to even five of them, we would have known to build something else. Instead, we spent the best part of six months noodling around with an idea, building an app and spending money on it. When the time came to launch and do some beta testing, it was tumbleweeds."

Carey still comes across founders who just haven't done enough research. "We'll ask, 'have you spoken to anyone about this?' And they'll say, 'no, no, my idea is so good, I can't tell anyone'," he says. "One of the most common phrases I send to my colleagues is 'this is a solution in search of a problem'. I don't think you should necessarily wait to build something until you've spoken to 100 customers. But start with a prototype, show it to a bunch of people. Get feedback. Reiterate on it."

> **"One of the most common phrases I send to my colleagues is 'this is a solution in search of a problem'."**
>
> ***Eamonn Carey**, general partner at Tera Ventures*

DESIGNING FROM THE GROUND UP

The team behind ManyPets already had 120k potential customers at their disposal when they decided to pivot their existing digital insurance brokerage towards offering pet insurance themselves. "We had ranked our 330 different communities [including pets, small businesses, travelling and cycling] by levels of engagement and all of the pet stuff came top, it was staggering," CEO and cofounder Steven Mendel says. "In 2016 we asked 120k of our pet members what their perfect pet insurance policy would look like. We got 40k free-form responses. Luckily it was over the summer and there were lots of interns who wanted jobs."

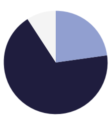
Six months later, that feedback had been turned into seven brand-new products, and ManyPets was born. The team had expanded too, to address the lack of operational expertise within the business, borne from the shift from broker to provider. "In the middle of 2016, our first ever chief operating officer Oke Eleazu joined us," Mendel adds. "He's still with us today and a very core part of the leadership team. We had four people at that level but all with very different skill sets. We didn't bump into each other."

One of the dangers with first hires is going too junior, Janneke Niessen, founding partner of CapitalT in Amsterdam, says. Sometimes founders can be too shy

Startups, choose your formula

Winning formulas of Europe's top 1000 startups

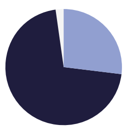
***Source:** McKinsey*



Network (11%)

Dominant verticals:
- Media and content (23%)
- Marketplace (68%)

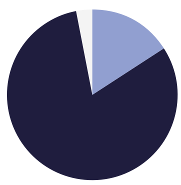
Strategy:
Drive product adoption and usage to become the winning platform, as companies become more valuable as they gain users



Scale (14%)

Dominant verticals:
- Media and content (27%)
- Ecommerce and consumer (71%)

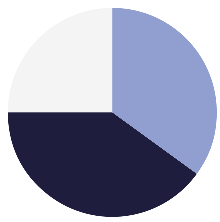
Strategy:
Achieve early sales to reach critical size and economies of scale



Deeptech (30%)

Dominant verticals:
- Hardware (16%)
- Biotech and healthcare (81%)

Strategy:
Focus on research and development early on to commercialise scientific breakthroughs



Product (45%)

Dominant verticals:
- Fintech (35%)
- B2B SaaS (40%)

Strategy:
Prioritise developing superior products and customer experiences, bringing competitive advantage over direct growth

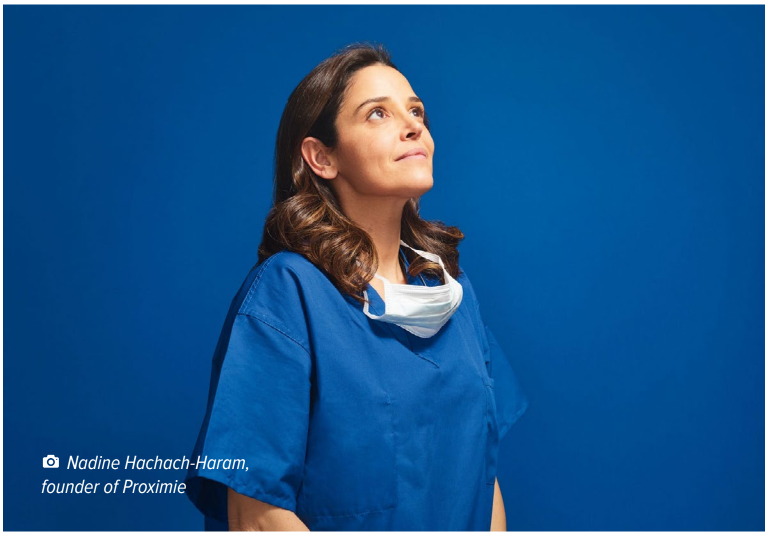
to approach someone with a high profile, or they can be reluctant to spend money. "That's especially true of those who initially bootstrapped," she adds. "But you need to spend the money. You need to hire really good people that can take responsibility and really get things going, Otherwise as a founder, you become the bottleneck."

An appetite for startup life is also important, she says. "You need to be careful that you don't hire expensive people that can't work in a startup anymore. The speed, the chaos, the uncertainty, not everybody can handle that. There's no IT department if your laptop breaks."

> **"Many startups hire too many managers too early. It looks good on a PowerPoint slide because it looks like you have a lot of structure. But you actually need to get things done."**
>
> ***Boris Lokschin**, CEO and cofounder of Spryker Systems*

Lokschin from Spryker Systems agrees — people who can get their hands dirty are essential. His first hires were predominantly focused on technology and engineering. "We had to build the product at some point. And then we reached a tipping point where we added sales and marketing. Many startups hire too many managers too early," he adds. "It looks good on a PowerPoint slide because it looks like you have a lot of structure. But you actually need to get things done."

Definitely don't add sales and marketing support too early, Alan Poensgen, partner at Antler VC, adds. "That was something I did wrong with my first venture. We were in beta, we had a launch date set, so I started to hire marketing people a couple of weeks before. As always happens, the launch was significantly delayed and we had all of these marketing people sitting there but with no product to market. That was costly and drained resources from everyone else. So don't hire sales and marketing people until your product is ready."



Nadine Hachach-Haram, founder of Proximie

A JACK OF ALL TRADES

Insight from advisers can be particularly helpful for founders traversing the early days of a startup. Nadine Hachach-Haram officially registered Proximie in 2016. The platform, which uses a combination of augmented reality, machine learning and artificial intelligence to allow surgeons to virtually "scrub in" and collaborate with others around the world, spent two years at MVP stage, with tests in South America and Vietnam. Today, the Proximie team numbers 150 people, and the platform has been used in more than 50 countries by surgeons performing tens of thousands of procedures across every specialty.

After raising her seed round in 2016, Hachach-Haram brought her development team in-house and hired three executives to help support the company's go-to-market strategy. "You almost need someone who's comfortable with ambiguity, a jack of all trades," she says. "I didn't have the budget or the resources to have one person for operations, for example."

She also started looking for advisers, and often found them in the unlikeliest of places — Curtis Chambers, Uber's former director of engineering, Scott Mirer from Netflix and Daran Thayne from the cloud software company Domo have all been involved. "Talking to someone in a very different industry and translating some of that learning into healthcare has been very interesting," she adds. "I wanted the platform to be easy to use and very intuitive."

MORE THAN MONEY

Early-stage investors can also often provide more support than just their chequebook, Carey says. "I have a team that's just closing a round who have taken a much lower valuation to work with an investor that they want. They probably could have tripled the valuation working with someone else, but they've been strategic in terms of the value this person can deliver. It's worth a slightly lower number from an ego perspective."

That was also the experience of Samuel Mueller, CEO and cofounder of the Swiss smart data capture and barcode scanning software startup Scandit. The team bootstrapped the company for the first three years, relying on their ability to generate early revenue streams before eventually finding industry experts to invest.


Scandit founders

"They supplied us with a very good amount of cash and a lot of best practices, based on their experience," Mueller says. "Being able to lean on people that have been there, done it and made their share of mistakes was invaluable. They're also people who understand the pain of the journey. It's very reassuring to have those types of individuals by your side. They don't get nervous when things take a different turn.

"Being a founder is pretty lonely, even if you have cofounders. It's so important to have people around you that are going through the same things. Otherwise you think everybody else is killing it, and they're really not."

***Janneke Niessen**, founding partner of CapitalT*

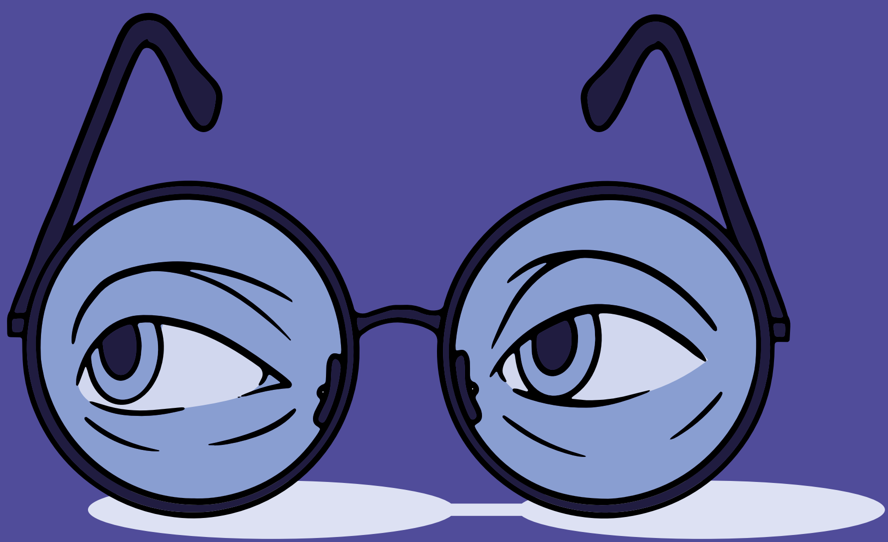
As well as advisers, mentors and investors that can support your early journey, entrepreneurs should also build a network of other founders to talk to, Niessen from CapitalT adds. "Being a founder is pretty lonely, even if you have cofounders. It's so important to have people around you that are going through the same things. Otherwise you think everybody else is killing it, and they're really not."

Chapter II

Build it and they'll come — right!?

Finding your first paying customers

You've collected feedback on your product and feel it's ready to launch. Now you need to figure out what to charge, while discovering the right strategy — and tools — to attract your first customers



You've built an MVP, got some great early feedback and iterated accordingly. But how do you then find your first paying customers and set a price that will resonate with the market?

Thibaud Hug de Larauze cofounded Back Market in Paris in 2014. It was the first marketplace dedicated to refurbished technology products and has now grown to service more than 5m customers across 16 countries. Its Series D funding round in 2021 raised $335m, but in the beginning the team had no money in the bank to advertise their innovative solution.

"We had to get creative," Hug de Larauze says. "Your first customers are always friends and family. What's interesting is the first customer that you don't know, or who doesn't know anyone that knows you. That happened about a month after launch for us. It's a moment that means a lot because it proves they were convinced by our value proposition and not just because they knew us. We were working out of an incubator at the time, and that first 'real' customer had seen one of the adverts we'd put up in the toilets."

Back Market has had to nurture two distinct groups of customers — people choosing to purchase refurbished devices rather than new ones, and the sellers using the platform. "You need to be obsessed with creating more value for both types of customers all the time. It's never over," he says about the company's growth over the past eight years. "We ask everybody who makes a purchase on the platform to rate their experience. We'll ask them how the battery life was (which is the biggest concern for refurbished technology products), how clean the product was, how they'd rate the delivery experience."

Back Market team

Building trust is very important, so those reviews are displayed on the website and used as part of the algorithm to rate the quality of the sellers on the platform. "We got very inspired by Airbnb and the way they do it," he adds.

> **"We got very inspired by Airbnb and the way they do reviews."**
>
> ***Thibaud Hug de Larauze**, cofounder and CEO, Back Market*

USERS VS BUYERS

For B2B companies, the road to securing paying customers can be long and winding. Boris Lokschin, CEO and cofounder of Spryker Systems, works with sales cycles as long as six to nine months with multiple rounds of meetings. "It's easy to get people in enterprise excited, it's much harder to get them to commit," he says. "The buying process is very irrational. You will talk to everyone — from purchasing to legal and management — but none of them will ever see the product or use it. It took us some time to figure the process out."

What often helps B2B startups, Eamonn Carey from Tera Ventures adds, is finding an internal champion who can help you navigate an unfamiliar landscape and advocate for you in internal meetings. "These are often big organisations with lots of hierarchy, lots of people with similar job titles. It can be unclear who does what. You need to understand who's going to be the user and who's the purchaser and tailor your pitch accordingly. If you're building an HR tool for example, the HR manager might love it but they don't tend to have any budget. So you need to persuade the CEO that this is going to provide dashboard-level reporting, which will make their board meetings better."

Lokschin agrees: "We basically have a map of all of the involved parties. Some are champions, some will not like you, some will have their own agenda, some you will never see but they're signing off the budget. There may be politics in the background, or procurement requirements that have nothing to do with the product but might be about the size of your company, your legal entity or certifications. Over time you narrow down the ideal customer profile."

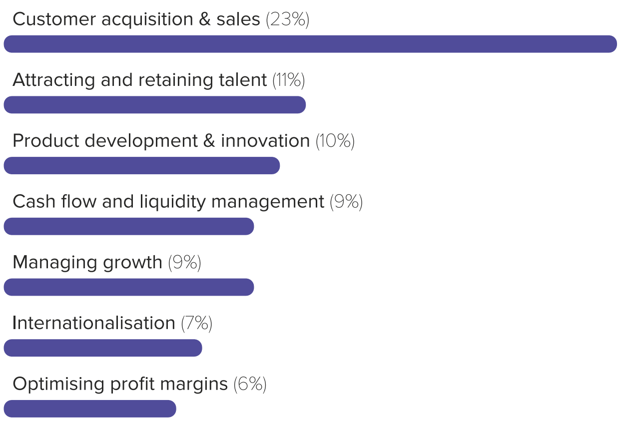
WHERE ONE GOES, MORE FOLLOW

The team behind Onfido, the document verification startup that's valued at £345m, took a punt when it came to signing their first customers. The tool wasn't 100% ready but they needed more samples to improve the technology. "We had fewer IDs in Latin America or southeast Asia but our pace of improvement was so good, we'd explain they were buying into the vision," cofounder Husayn Kassai says. Other times, they convinced them to run Onfido alongside another provider and compare the results. "Sometimes we'd be in bids and we'd lose. But they'd already integrated to test us and we'd say, 'rather than switch us off, let's re-engage in 18 months or three years when your renewal is coming up'. Around 2017-18 half of the large contracts that we won was because we conducted it so well the first time."

Startups see customer acquisition and sales as their biggest challenge

Perceived challenges for the company's future development, from a survey of 540 European startups

Source: *CB Insights*



Onfido founders

An early decision that Kassai believes changed the startup's trajectory was its focus on other disruptors — fintechs, such as Nutmeg and GoCardless, and neobanks such as Revolut, which were just starting to emerge. "In 2013 it wasn't a done deal that neobanks were the future," he says. "But we felt strongly that they were. And we thought that if we impress them, not only are they going to grow and help fund us but they will set a new standard for everyone else to follow. I think if we'd focused on the major banks, we still probably wouldn't have signed more than one deal." Onfido now works with four of the big five banks in the UK.

Case studies were the other key component for success — the solution had to be seen to work. "We were replicating the face-to-face bank onboarding process digitally," Kassai says. "In online banking applications, you normally have a 40% drop off rate, we were able to tangibly reduce that. We could take a percentage or two off compliance and fraud risks, and do x, y and z faster, but crucially, it'd be at 10% or 20% of their current cost. Pricing became a lot more value driven … it was a cost and return on investment perspective."

FREE CAN ALSO BE A STRATEGY

Pricing is difficult to set for those first customers, particularly when a product has fewer bells and whistles to monetise. In Sweden, Johan Attby didn't introduce a paywall to his startup Fishbrain, a mobile app and online platform for anglers, for four years, relying on venture capital instead. Now, the startup has a global user base of 14m anglers, 10% of whom pay a fee. Behind the paywall are fishing insights derived from crowdsourced data about users' logged catches, plus temperature, wind speed, wind direction, and a heavy dose of artificial intelligence (although fishing spots aren't usually shared — anglers are notoriously tight-lipped about their favourite places). Fishbrain has also started to sell products via an integrated marketplace, and takes commission from each sale. "If I were to maximise revenue, I wouldn't run Fishbrain as a fremium model. It's really hard," Attby says. "But the free users contribute to the platform through their data, and they can buy or review products on the platform."

Part of the benefit of launching the product as a free app was the ability to attract users as quickly as possible, which were predominantly found through paid user acquisition via Facebook and Google. That was also why Fishbrain targeted the US first, where there are approximately 55m fishing enthusiasts. "We had 15 competitors when we started and we knew we needed that volume of data to beat them," Attby says. "It's been a tricky business to scale and we were probably spread too thin at the beginning. We needed to build market by market, almost region by region. People want to be on the same platform as their fishing buddies, and it's very local because the majority of anglers fish within a two hour drive of where they live."


Fishbrain team

> **"It's been a tricky business to scale and we were probably spread too thin at the beginning. We needed to build market by market, almost region by region."**
>
> ***Johan Attby**, CEO of Fishbrain*

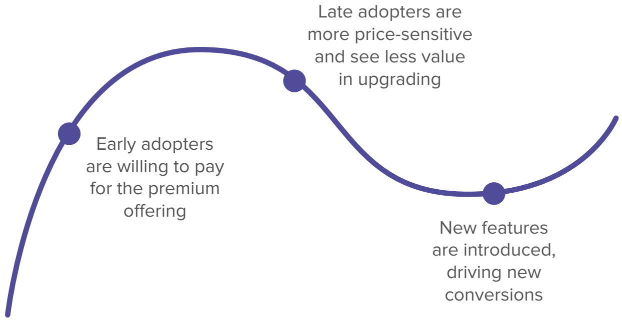
Given his time again, Attby says he would target a very specific niche of fishing in one particular area and scale from there. He'd also have done more offline marketing. "When you spend your money on user acquisition on Facebook, you don't really build the brand like you do in offline settings," he adds.

It's obviously worked out for Fishbrain, but one factor to keep in mind when you have a split between paid users and those that use your service for free is their behaviour may differ wildly, experienced scaling CTO and adviser Meri Williams says. "Getting customers to pay something early on is actually really valuable. A lot of companies that build for a free customer base then think they understand what people want. But maybe their paid customer base wants something a bit different, and that's why they're willing to pay. One thing I don't see companies doing with their analytics enough is differentiating between their free and paid customers and their behaviour. It took us a while to work that out at Monzo."

Rise and fall – and rise again

The life cycle of paid subscriptions for companies with a freemium model

***Source:** Harvard Business Review*



GoHenry

FOCUS ON THE VALUE, NOT TECHNOLOGY

For startups built around clever technology, getting the marketing messaging right can be a tricky balance to strike. That's something Rocio Pillado, partner at Adara Ventures, which predominantly invests in deeptech startups, comes across a lot. "You have to take a very complicated product or technology and be able to explain it very easily so that anybody can understand it," she says. "You need to be able to demonstrate the value and benefit customers are going to get from engaging with your service."

Eamonn Carey from Tera Ventures agrees. "I see people describing their products in very technical ways, using buzzword bingo, when what they need to do is describe the value they're delivering, rather than the technology they're building. You should be A/B testing everything, making sure the messaging lands and you're not pitching something at too high a conceptual level for your customers."

Louise Hill had her work cut out for her when she was first pitching GoHenry to potential customers. The startup encompasses a pre-paid debit card and financial education app designed for children aged six to 18. It launched in the UK in 2012 and has since expanded to the US market too. "I realised my kids needed to learn how to manage money in what was becoming an increasingly digital world," Hill says. Fast forward ten years and one in five 11-12 year olds in the UK now has a GoHenry card.

Marketing "was probably the biggest challenge when we first started," she adds. "In the nanosecond you get a potential customer's attention, we had to explain two things — why it was a good idea in the first place and why they needed us in particular. We tried a lot of things to find our first customers: local radio, family events, partnering with schools, digital marketing. In the end, it was a combination of PR and word of mouth that worked".

Building trust has also been key. "One of the things I've always said to everyone who's joined [the team] is you're looking after people's money and you're looking after people's children. Those are probably the two things that people get the most emotional about. So we spend an awful lot of time talking to customers through research days, surveys and touchpoints like Trustpilot [the consumer review website]. And our first hire was a head of member services."

LEADING FROM THE FRONT

With Proximie, the digital platform that allows surgeons to collaborate remotely, Nadine Hachach-Haram also knew she had to evangelise her solution. "There's a huge amount of behavioural change that had to happen for this solution to be adopted," she says. "Traditionally the mantra in healthcare is 'see one, do one, teach one'. We were telling people to forget that in favour of 'prepare, perform, perfect'. I spent a lot of time building thought leadership while our engineers were building the product.

"I gave a TED Talk, I joined the Commission for the Future of Surgery at the Royal College of Surgeons of England, I went to any conference that would have me." After running the first unpaid early access programmes in 2016, the team finally felt ready to launch commercially in 2019. Growth was doubling quarter on quarter, even before the Covid-19 pandemic hit in 2020. "That accelerated the business 10 times over," Hachach-Haram adds.

Thought leadership is a great strategy, Pillado says, particularly when you're disrupting the market. It's one she often wishes entrepreneurs would invest more time into. "Sometimes entrepreneurs focus a lot on talking about the technology and product they have built and not enough about themselves. As investors, we're investing in people. And customers want to trust the people they buy products from too."

Chapter III

Keeping customers and preparing to grow

Getting customers is only half the battle; now the urgent task is to hold on to them

As startups prepare to enter the post-startup phase, they will adjust in size, shape and scope to facilitate growth. Customer retention becomes a high priority — oft-cited statistics estimate that acquiring a new customer can cost five times more than retaining an existing one.

Part of keeping customers on side includes taking their feedback on board and evolving the product accordingly. At Fishbrain, Johan Attby says they've never been short of feedback — good and bad. "Mostly bad. I think that's especially true when you go after something that people are passionate about," he laughs, adding that it comes from everywhere, including App store reviews, emails and sometimes even phone calls. "Someone once found my phone number. Fishbrain users have very strong opinions. That's great but it also makes it hard to prioritise." Structured processes need to be put in place to collect feedback, rate it and draw insights accordingly.

Learning from the usage of the product via metrics such as how often a customer is using the platform and for how long, which features are popular among which users and which ones aren't, all provide valuable insight in terms of where to assign more development time.

"It's important to make sure you quickly understand what the real drivers [of success] are, because you can look at a million metrics. But there are often not more than five that will really drive your success."

***Janneke Niessen**, investor with CapitalT*

Collection of such data should be automated as much as possible, Janneke Niessen, founding partner of Dutch VC firm CapitalT, says. "It's important to make sure you quickly understand what the real drivers [of success] are, because you can look at a million metrics. But there are often not more than five that will really drive your success. You need to put a big effort into identifying those."

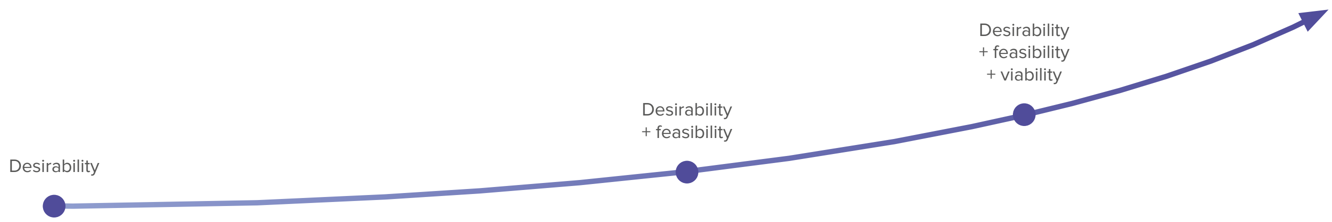
You may be looking to pass the toothbrush test — do customers use your app at least twice a day? Or are you offering a product that helps with efficiency whereby a short dwell time would indicate success,

After finding product market fit comes the hard part: scaling successfully

The process towards product market fit

***Source:** The Venture City*

0.	1.	2.	3.	4.	5.
Starting point	**Problem insight**	**Problem/ solution fit**	**Product iterations**	**Product/ market fit**	**Scale it!**
Hunch on a problem	Ethnography research	Minimum viable product	Beta testing	Run-away organic growth	Improvements & funnel optimisations



asks Meri Williams, former CTO of Moo and Monzo. "I personally think there's value in qualitative and quantitative data. It's very healthy to have a good user research team and be constantly understanding qualitatively how people are experiencing your product."

At one of Williams's previous roles with Gov.uk, there was a rule that the team shouldn't build something for more than two weeks without getting user feedback. "That limits how far you can go down the rabbit hole," she adds. "Many startups are not set up to do user research that frequently. But I think if your first design hire also has user research chops, that's super useful." On the technology side, she's known startups that will use something as simple as Google Analytics, all the way through to building their own analytics tools.

The key is to continue listening, Hussayn Kassai from Onfido adds: "The second you take the foot off the pedal even a little bit, there are another dozen solutions ready to listen to what your customer says." What's worked for Onfido is looking at those reviews that rate the service highly and those that rate it particularly low, rather than those users in the middle. "What's the special thing we're doing that we should do more of, and what is it that is really frustrating people?"

Hatch office

FASTER HORSES

Of course the product roadmap can't solely be decided by customer feedback. There's a famous quote from the motorcar pioneer Henry Ford (although many question whether he even said it): "If I had asked people what they wanted, they would have said faster horses." Particularly when entrepreneurs are disrupting an established market, or solving an old problem with new technology, customers often won't be able to comprehend what is possible.

In Amsterdam, serial entrepreneur Joris Kroese started pitching his omnichannel commerce solution, Hatch, in 2010. Fast forward 12 years he has a team of more than 100, an annual recurring revenue of over $10m, and operations in more than 80 countries around the world. In 2021, over 100m customers passed through the Hatch platform, and recently the company was acquired by the US technology company PriceSpider for an undisclosed sum. One of Hatch's most successful features has been its Where to Buy technology, which connects brands directly with retailers and their stock levels.

"We didn't incorporate much customer feedback into product development to be honest," Kroese says. "When we started, brands didn't even realise the journey was broken on their side. We were opening their eyes at the same time as creating a new non-existent vertical. I think our competitors helped us a bit in that respect, because we were both evangelising a new disruptive SaaS concept."

One of the biggest challenges for the Hatch team to overcome when it moved to the scaleup stage was establishing a predictable sales process, Kroese adds. "That's been a struggle over the past 10 years. You put people and marketing efforts in place, you put money into it, and the hope is you'll have a steady flow of leads and deals. Although we've done well, that hasn't always been predictable."

Williams agrees that entrepreneurs should focus on the problems their customers are facing, and translate that into technology solutions, rather than asking users what features they'd like to see. "I'm in favour of having a really strong product vision and taking that into account alongside what customers want. Otherwise you end up with a democratic product feature process, with quite dissociated features being implemented, rather than solving a problem really well for everybody."

KEEP FOCUS

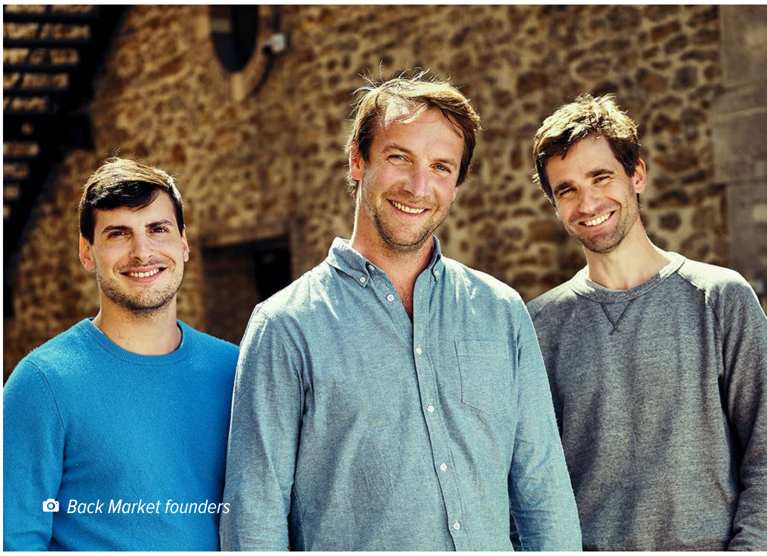
At the heart of that product vision, founders need an unwavering focus on their end goal to stay on track. Hug de Larauze, cofounder and CEO of Back Market, says the team lost six months when it was two years old after a big insurance company offered them a contract. "We started to develop a whole set of features for that programme instead of focusing on our value proposition," he says. "I think we were fortunate it didn't work in the end, because we would have just become a service provider for a big group. It would have prevented us from innovating for our other customers. You really have to ask yourself and your team: is this going to drive us where we want to be?"

The same thing happened to Kasper Enggaard Krog at Vibrant. "We were approached by the DSB, which is the Danish railway company," he says. "My commercial heart was going 'win, win, win', but I had to say to them, 'no thank you', because they didn't fit in with our target audience of SMEs. If we'd done it, we would have ended up talking to British railway companies next. I'm not motivated by that journey at all." Now live in Denmark, Spain and Cyprus, Vibrant is currently closing a seed round, with plans to launch into Italy and Germany shortly.

"My commercial heart was going 'win, win, win', but I had to say to them, 'no thank you', because they didn't fit in with our target audience of SMEs."

Kasper Enggaard Krog, CEO of Vibrant

"Partnerships can be exciting but also very time consuming," Nadine Hachach-Haram, founder of Proximie says. The company has just announced collaborations with Vodafone and Teledoc Health to expand its reach, and plans to work with other



Back Market founders

applications to build out the Proximie ecosystem. "We've worked really hard on our tech stack to make sure it's very amenable to integration," she adds. "But there's always some debate around assessing the opportunity cost — what value will this partner give to our end users? How will it help us scale and make a difference?"

BUILDING OUT THE TEAM

With growth comes recruitment. A lot of recruitment. Onfido has around 650 employees now and Kassai remembers the moment the company's employee numbers exploded. "You're constantly hiring and you just can't move fast enough. It's diametrically opposed to the startup phase when you shouldn't have more than around 14 people because you're pre-product market fit. It's a totally different mindset."

Those skills coming in-house means founders need to step back to take a more strategic position. That can be challenging for entrepreneurs and something many need to prepare for. "I've seen companies get in trouble where founders continue to want to be in the weeds of everything," Eamonn Carey from Tera Ventures says. "Your job is to step back, make sure there's money in the bank, hire amazing people, set the vision and very little else." There may also be some of the more generalist members of the early team that can't make the transition to focusing on a narrower, more specialist scope of work and have to leave.

GoHenry has around 120 people on the team now, including 20 in the US. In December 2020, the company raised its first VC round, closing $40m, to help scale the US side of the business. Cofounder and COO Louise Hill says her role has changed significantly in the past few years. "As you scale, you need to figure out what you need to keep hold off and what you absolutely need to let go of because you've brought in experts in their field to do that better than you. The growth process can be quite rocky sometimes because some people adapt really well to letting go and stepping up and some people don't."

> **"If you're doubling the team in a year or less and you haven't articulated what your values are, then you're in trouble because you're relying on luck to maintain your culture."**
>
> ***Meri Williams**, specialist CTO adviser*

REJECTING CULTURE FIT FOR VALUES

Once a team reaches more than 20, culture and internal communication tends to break down if it's not cultivated by those at the top. Back Market now has a team of 600 employees. Hug de Larauze says the company had a lot to learn about the importance of hiring well. "We did make a few mistakes. We were looking for hard skills but ignored culture fit. When you scale I think you often need external help to work on your culture and values, to determine how they'll live within the hiring process, onboarding, decision making — all of the key moments within the life of an employee. Culture is organic, it grows with the people that join the company. You can't keep it the same as it was before."

The importance of culture comes into play remarkably early, Williams says. "Past 20 people you have to actively tell people what's going on. Because otherwise they will be working against each other without realising it, because they've got a different understanding of what's important. If you're doubling the team in a year or less and you haven't articulated what your values are, then you're in trouble because you're relying on luck to maintain your culture." A lot of startups should add a People person to their team much earlier than they do, she adds.

Relying on some vague notion of culture doesn't work either, "because I think culture is what people experience. Values are the articulation of what culture is. If you ask people in startups what culture is, they can give you anecdotes and feelings but they wouldn't be able to tell you the right interview questions to ask to figure out whether someone is going to add to that culture or detract from it. They end up in this trap of thinking about culture fit.

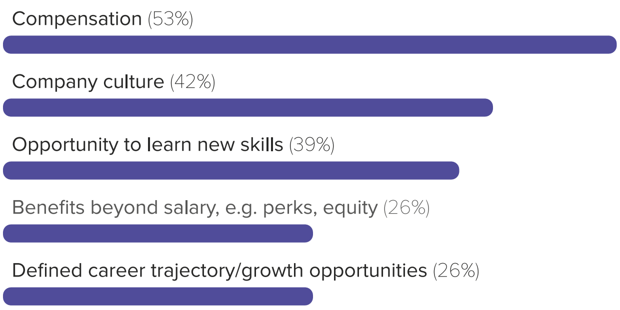
"And culture fit is not good. It leads to groupthink, it leads to all of the negative things that we see in teams that are not diverse enough. If you are very clear about what your culture is, then you can assess every new person that you're hiring against how they're going to strengthen and add to it. And that's really powerful."

Enggaard Krog at Vibrant calls it his moral compass. "We have three values: reliable, authentic and togetherness — we're there for each other and our customers. That guides me and the team in every single decision. We've had so many opportunities but you have to look at your values and say, does this fit? If not, we don't do it."

Company culture is the second most decisive factor when it comes to picking a workplace

Most important things employees look for in a company

***Source:** Hired*



Starting up smart

Founder lessons

Or the moments that make or break a company

The true lesson of startup life is that you don't need to know all the answers when you start. But just in case it's useful, here's some advice from those who've lived it, survived it or made a mess of it the first time round

Invest in customer channels that make sense to your audience

"You don't need to be on TikTok if you're selling enterprise software."

***Lucy Heskins**, director, Oh Blimey*

Carve out time to recharge

"No one wants to work with a stressed, burned out leader or manager. Invest time in making sure you're focused and clear headed. It's not 'me time', it makes you a better leader. And that's incredibly positive for your business."

***Louise Hill**, cofounder and COO, GoHenry*

Don't be all things to all people

"We probably lost a year in the early days by trying to be everything to too many prospects. It's very hard to say no, but be very disciplined and ruthless about how you work through your leads. I think it's definitely something I'd be better equipped to do if I did this again."

***Samuel Mueller**, cofounder and CEO, Scandit*

It's 98% about your fellow travelers

"Success is 98% people and 2% everything else. A standout moment for me was around 2017, when we had 100 or so people. I was on a flight from the US and not available for eight hours so I had to miss a series of meetings. I remember reading the meeting notes afterwards and thinking 'oh my god, this is so good'. There was nothing I would have changed. It was the right people, making the right decisions, in the right structures with the right values."

***Husayn Kassai**, cofounder, Onfido*

Have no shame about asking for intros

"Number one, I'm a serial networker. I have no sense of shame when it comes to asking for introductions from people. Asking people that we knew who might be interested in supporting our story has worked really well for us. After that, I see my role as focusing on our staff first before anything else. If I focus on our staff, they can focus on our customers — and the customers can focus on their pets. And if we get all of that right, the shareholders will be happy. Also: just keep enjoying it. It's a lot of work, a lot of hours, and it gets in the way of a lot of things. But I very much look forward to [going to work] most days."

***Steven Mendel**, CEO and cofounder, Many Pets*

Be vulnerable

"The worst thing you can have is investors around you who are not bringing any additional value to the table and just giving you the wrong advice. As a founder, if you're lacking in sales or your growth isn't working, then you need to call more, you need to build up your pipeline. Be in control of your success. Also, there's no need to be a superhuman. Show your feelings, be vulnerable."

***Kasper Enggaard Krog**, CEO, Vibrant*

If I could go back, I'd keep a better work-life balance

"One of the key challenges (though it's a good problem to have as well) is focus. You have to stay focused because you can do so many things, you can take your startup in so many directions. Every person you talk to will give you a view on where they want you to take the business. It's really important to be diligent in that focus. Otherwise, I'm not sure I've got the work-life balance right. That's the only bit I wish I could go back and improve."

***Nadine Hachach-Haram**, founder, Proximie*

Nail your product-market-fit

“The first milestone is definitely the product-market fit. You either get it or you don’t. Second is when you start to outsource sales and marketing from you as a founder to people who will tell the story on your behalf, building a structured, recurring and predictable sales and marketing pipeline. And third is definitely international expansion (Your first international hires, first international entity, clients and partners). That’s a very exciting moment.”

***Boris Lokschin**, CEO and cofounder, Spryker Systems*

Admit when you become a roadblock

“There was a moment about five years ago when I realised I’d become a roadblock. I was working flat out but I hadn’t disseminated information around what we did, why we did it, where things were, who to speak to. It was kind of all in my head. I realised I was creating a risk for the business and stopping us from growing as quickly as we could. Don’t let that moment sneak up on you. Plan ahead.”

***Louise Hill**, cofounder and COO, GoHenry*

Open your wallet to get the best people

“Get the strongest person that still likes to get hands-on at the beginning. They won’t be the cheapest but very good engineers can do the work of 30 cheaper engineers and the technology they build is going to last much longer. All the choices that you make at the beginning of the company will shape the future. So if you have the luxury of choosing investors when fundraising, prioritise those experts that will help you with more than just money. Surround yourself with people with a different mindset or way of thinking. If you just pair up with someone from the same high school it could work, but you’ll be missing a lot. You cannot agree with your cofounders all of the time.”

***Thibaud Hug de Larauze**, cofounder and CEO, Back Market*

Don’t think you can skip out on certain steps in the startup journey

"This lesson isn’t hammered home and I can’t emphasise it enough: do your customer research. It’s a weekly and monthly commitment. The money you think you’ll find in your segment may actually be in a whole other sub-segment of the market that you think is unsexy. But you can’t ignore that."

***Lucy Heskins**, director, Oh Blimey*

Make sure it’s the right time to scale

“You have to be sure that you’re scaling at the right time. You need product market fit and a replicable and scalable sales process. If you’re investing in growing, you need to have the return on investment figured out. And don’t underestimate the challenge of starting in a new market.”

***Ruth Puente**, COO, Bdeo*

Start very narrow

“There are 55m people that fish in the US every year — it’s hard to build a product that caters to 55m users. I think we should have started very narrow and made sure this is a user experience that people don’t just like but actually love. Once you have something that’s working for a subset of people, then you can expand.”

***Johan Attby**, CEO, Fishbrain*

Try lots of things — but on tiny scales

“Try a lot but start small with anything that you do. Don’t put too much money into anything, then measure the results, scale up if it works and stop if it doesn’t.”

***Joris Kroese**, founder and CEO, Hatch*

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