Final report on collaborative learning

WP2 – Deliverable D2.2

ABSTRACT
Lessons learned from interviewing startup founders across Europe in various stages of their development. A quest to identify the main causes of failure and point out how to mitigate them by service providers.

Carmen Bermejo, Gema Parreno
Tetuan Valley
### Project information sheet

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Project number</strong></td>
<td>645000</td>
</tr>
<tr>
<td><strong>Project acronym</strong></td>
<td>LIFE</td>
</tr>
<tr>
<td><strong>Project title</strong></td>
<td>Learning Incrementally from Failed Entrepreneurship</td>
</tr>
<tr>
<td><strong>H2020 programme</strong></td>
<td>H2020 ICT 13</td>
</tr>
<tr>
<td><strong>Project duration</strong></td>
<td>2 years (24 months)</td>
</tr>
<tr>
<td><strong>Project start date</strong></td>
<td>01.01.2015</td>
</tr>
<tr>
<td><strong>Deliverable title</strong></td>
<td>WP2: Report on collaborative learning</td>
</tr>
<tr>
<td><strong>Partner in charge for the deliverable</strong></td>
<td>Tetuan Valley</td>
</tr>
<tr>
<td><strong>Dissemination level</strong></td>
<td>PU - public</td>
</tr>
</tbody>
</table>

### List of authors

<table>
<thead>
<tr>
<th>Organisation</th>
<th>List of authors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tetuan Valley</td>
<td>Carmen Bermejo</td>
</tr>
<tr>
<td>Tetuan Valley</td>
<td>Gema Parreño</td>
</tr>
</tbody>
</table>

### Revision history

<table>
<thead>
<tr>
<th>Date</th>
<th>Revision history</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/26/15</td>
<td>First draft</td>
</tr>
<tr>
<td>02/12/16</td>
<td>Second draft</td>
</tr>
<tr>
<td>02/15/16</td>
<td>Revision</td>
</tr>
<tr>
<td>12/14/2016</td>
<td>Second revision</td>
</tr>
<tr>
<td>29/12/2016</td>
<td>Quality check</td>
</tr>
<tr>
<td>14/01/2017</td>
<td>Final version</td>
</tr>
</tbody>
</table>
Table of Contents

1. INITIAL APPROACH ................................................................................................................................................. 4
   1.1 BRIEF DESCRIPTION OF LIFE - WP2 .................................................................................................................. 4
   1.2 DEFINITION OF A STARTUP .................................................................................................................................... 5
   1.3 INTERVIEWS AS TOOL FOR ANALYSIS .................................................................................................................. 5

2. THE STUDY .................................................................................................................................................................... 5
   2.1 STARTUP STAGES ....................................................................................................................................................... 5
   2.2 CATEGORIES OF THE PROBLEMS ............................................................................................................................. 6
   2.3 NOTICEABLE TRENDS .............................................................................................................................................. 6
      2.1 Funding for first time startup founders .................................................................................................................. 6
      2.2 Legal development .................................................................................................................................................. 7
      2.3 Technical talent and product development ........................................................................................................ 7
      2.4 Shareholders agreement between co-founders .................................................................................................... 7
      2.5 Scale and growth .................................................................................................................................................... 7
      2.6 Partnerships and early stage help ........................................................................................................................ 7
      2.7 Persistence through failure ................................................................................................................................ 7

3. RESULTS ....................................................................................................................................................................... 7
   3.1 CLASSIFICATIONS OF RESULTS .......................................................................................................................... 7
      3.1.1 Discovery ......................................................................................................................................................... 8
      3.1.2 Validation ....................................................................................................................................................... 10
      3.1.3 Efficiency ....................................................................................................................................................... 12
      3.1.4 Growth ............................................................................................................................................................ 13
   3.2 COMMON PROBLEMS .......................................................................................................................................... 15
   3.3 TYPICAL PROBLEMS AND OUR PROPOSED SOLUTIONS .................................................................................... 16
      3.3.1 Value Proposition ............................................................................................................................................. 16
      3.3.2 Problems among co-founders ......................................................................................................................... 17
      3.3.3 Finding the right co-founders ........................................................................................................................ 17
      3.3.4 Product Development .................................................................................................................................... 19
      3.3.5 Tech team not receptive to customer needs .................................................................................................... 19
      3.3.6 Legal issues ..................................................................................................................................................... 20
      3.3.7 Funding .......................................................................................................................................................... 20
      3.3.8 International expansion .................................................................................................................................. 22
      3.3.9 Scaling business/monetization ........................................................................................................................ 22
      3.3.10 Lack of time / lack of focus .......................................................................................................................... 22
      3.3.11 Lack of experience and lack of good mentors and contacts ......................................................................... 23
   3.4 GOOD PRACTICES .................................................................................................................................................. 24

4. PROJECT CHALLENGES ............................................................................................................................................. 24

5. NEXT STEPS .................................................................................................................................................................. 24

INDEX ............................................................................................................................................................................. 25

PARTNERS OF THE LIFE CONSORTIUM ...................................................................................................................... 25
1. Initial Approach

1.1 Brief description of LIFE - WP2

The LIFE project aimed to raise awareness on the importance of the acceptance of failure for the success of Startups. It also aimed to accelerate the learning process from the failure of all the actors in the startup ecosystem.

The European Commission launched a number of strategies in order to overcome the negative stigma of failing in business. Since important communications in 2007 – “Overcoming the stigma of business failure - for a second change policy” to 2008 – “Principle II of the Small Business Act for Europe”, also called for a second chance for honest entrepreneurs, a lot of effort has been made in this quest.

According to at the analysis performed of over 160 interviews with entrepreneurs, value creation depended more on networks and ecosystems and focus less on closed systems, making the recycled startup experience even more important.

According to Fortune, 9 out of 10 startups fail. Most startups would fail at first, but their success is marked by the speed the startup recovers from said failure. The learning curve of entrepreneurs is a determinant issue for startups, as second and third time entrepreneurs have learned and tend to avoid past mistakes.

In general terms, lack of success teaches entrepreneurs lots of things. It teaches them to not get too comfortable with what they are doing as well as shows them that there should always be a backup plan. Failure even shows the value these entrepreneurs have of determination and perseverance, as well as their strength and gratitude. Additionally, while success is highlighted in collectivist societies since there are negative taboos attached to failure, people who are creating businesses must understand that failure is a learning experience and an important pathway for success in the business world that most people go through.

When startups see failure as part of the process, they become faster at learning from their mistakes. This serves as a key enabler of good governance for companies seeking to drive innovation by managing risk more effectively.

Working together to find the problems and causes of our failures can help us solve them. In other words, collaborative learning is the best way we can learn from our mistakes.

WP2 -named COLLABORATIVE LEARNING - is subdivided into 4 main topics: failure, problems, good practices and ecosystem resources.

1.2 Definition of a Startup

There were countless definitions as to what a startup really is. We would like to put emphasis on a quoted definition of the term by one of Silicon Valley’s legends and repeating successive entrepreneurs, Steve Blanks. He believes that a startup is a "temporary organization designed to search for a repeatable and scalable business model." Blanks claims to have the term “startup” as the sort of “Scalable Startup”. In between the search for a proper product/market mix, failures also exist in these iterations for finding a space on the market since failure is always embedded in the concept.

The Startup Genome Team also gives the term startup a good definition, establishing it as “a developmental organism that evolves along five interdependent dimensions: customer, product, team, business model and financials. How progress is measured varies depending on the stage of the development.”

However, there are upcoming institutions such as the Spanish Association of Startups that claim for the “technological core” inside the definition of a Startup.

1.3 Interviews as tool for analysis

In this WP2, interviews were used as a main tool for identifying problems and solutions. There were over 164 different interviews. During these meetings, entrepreneurs identified the problems they believed to have had and got an analysis from a fellow partner on the matter. These conversations, though a bit informal, built trust and confidence for the people to approach one another. In turn, this created an atmosphere where founders were able to sincerely share their problems and worries. The interviews were divided into several topics in order to analyse them.

2. The study

2.1 Startup Stages

164 startups participated in the interviews. We included 4 main categories of classification for the lifecycle a startup usually goes through and categorised the startups under analysis according to the phase they were in. The following steps characterise the most common reasons Startups fail in each one of the lifecycle phases:

1) Discovery
2) Validation
3) Efficiency
4) Scaling

These stages were taken from Startup Genome Report\(^2\).

2.2 Categories of the problems

Ever since the interviews were carried out, as learning process has taken place whereby different categories were identified.

There were about 15 to 20 different problems identified in each category. This turned out to be a rather successful approach.

However, we identified 13 common problems to each category:

1) Team / Founders
2) Money / Funding
3) Product Development
4) Product-Market Fit
5) Lack of Focus / lack of clear goals / Lack of clear value proposition
6) Lack of Communication skills -affecting - Pitching
7) International expansion
8) Scaling business / monetization
9) Knowledge/lack of mentorship/guidance
10) Finding first clients
11) Legal Issues
12) Lack of time
13) Lack of contacts

2.3 Noticeable trends

2.1 Funding for first time startup founders.

When the founders do not have previous startup experience or a good track record that generates trust, investors want to see some sort of proof of concept before putting up money on the project. Many of the failed/stalled startups blame lack of financing for failing to progress, while others simply worked on developing the project and pitched until they got an investment.

In a lot of cases, the solution until the startup has enough traction to be attractive is a FFFF round: Founders, Family, Friends and Fools. Founders acquire savings, and investment from people close to them. Also, in some countries there is the possibility for public funding and grants, which can be used to cover this gap.
2.2 Legal development

Legal issues often become entangling, though successful startups make it through these situations. Some of these legal issues include employee contracts/rights, incorporation, accepting funding, and international expansion. Keep in mind that these issues would come up and budget for them, especially if you were operating in a region or industry with high amounts of regulation.

2.3 Technical talent and product development

Attracting the right kind of talent can be difficult in Europe. Startups with no technical founders often had issues with product development. The best educated candidates (especially in business development and strategy) do not want to work for startups. Paying staff with equity is helpful for extra motivation, but is not seen as a valid substitute for cash.

2.4 Shareholders agreement between co-founders

Clashes between founders were common. Strong, clear shareholder agreements help define boundaries and avoid future confrontations. Making sure all founders have similar goals and a common vision, yet different skill sets so as to not step on each other's toes or get in each other's' way.

2.5 Scale and growth

Startups must grow quickly, and a good plan for this is essential. Do not make any moves to expand or pivot without clearly analysing all of the metrics and data you have available. Growing too quickly or wasting resources on the wrong direction might result in future failure if you were not fully able to organise and oversee all aspects of the business.

2.6 Partnerships and early stage help

Advice from Pre-accelerators and Business Angels can be helpful, especially at the very beginning. Knowledge of business metrics, international expansion, and legal matters were also particularly useful.

2.7 Persistence through failure

The most successful entrepreneurs face the exact same difficult problems as those who fail, the difference is that they persist and solve them through trial and error without giving up.

3. Results

3.1 Classifications of results

The results were drawn from the analysis of the 164 interviews carried out. It is important to consider that we gathered info of all the stages that the startup had gone through, present and
past, and all the startups that were in the efficiency and growth phases have gone through
discovery and validation. Thanks to this, we acquired more data related to the first stages.

With this newfound data, we have classified the results into a series of graphs for each stage.

Besides that, we were in the process of monitoring 15 different interviews, detailing the
problems that these startups were experiencing.

3.1.1 Discovery

The goal of this stage is to validate the Value Proposition (the core of the project). Founders do
this through interviews to potential customers and/or users. Also, small experiments, called MVPs,
can help in the validation of the idea.

From the startups that were interviewed, there were well over 250 problems identified. The
bar graph for Discovery classifies the problems into the main categories, with the three most
significant issues dealing with Team, Money, and MVP.

Subsequently, if there were 46 problems in the “Team” category, the problems would most
likely have subcategories such as coordination, collaboration and hiring. (Fig.1)

Note about MVPs: It is important to highlight that among inexperienced founders there is a lot of confusion
about what an MVP is and what is it for. The term Minimum Viable Product was first used by Steve Blank and
Eric Ries, referring to small experiments aimed at validating the viability of the idea and the response of potential
customers. But very often the term MVP is mistakenly used to refer to the first prototype, or even a first
functional version of the product. The term, and the whole concept behind it, is specially misused when founders
skip the validation of the idea and potential interest of users, and jump immediately to building the product.
That means that they have skipped the discovery phase going directly to the validation phase. This very often
will create the problem of not having a clear value proposition. To accurately reflect the startups responses, we
maintained the category “MVP” as a problem in the discovery phase, although what it meant is that they had
problems developing a first version of the product, and that would cause problems for the next phase.

![Fig. 1: Categorized graphs of Startup problems in the Discovery Stage](image-url)
The circle graphic showed us that 74% of all the Startups had problems during the discovery stage, while 26% claimed not to. The entrepreneur's situation also played a crucial role at this stage. Second time entrepreneurs did not have so much trouble with team and MVP. However, they experienced issues with money and product market fit. Lack of problems with MVPs were prevalent because most experienced founders did not try to build a prototype at this phase, rather carried out interviews and small experiments instead. Regarding the team, they grew more cautious about who they associated with and got better at picking the right partners. Being involved in a healthy environment where they had plenty of opportunities of meeting good potential co-founders could help with that. In conclusion, we could enunciate that first/experienced entrepreneurs had both problems at the Discovery Phase, but the nature of their problems was different. By going deeper into the Discovery Phase, we developed a more complex graph. In this graph, we put on each side, various scaled sized circles highlighting the problems, and several circles showing the subcategories of these problems.

![Oriented scaled graph about the Discovery Startup stage](image-url)
In the Team category (43 problems), we have discovered 3 subcategories: Finding the right talent (36), collaboration between employees (9) and coordination between employees (1). (Fig. 2)

Regarding Money (41), we have implemented two main subcategories: financial problems (31) and funding and Investments (10).

The knowledge area (28) comes subdivided into three main categories: Entrepreneurial, Technical, and Marketing knowledge. Entrepreneurial knowledge (13) explains about how being a first-time entrepreneur or a serial comes to play. Technical knowledge and Marketing knowledge also influences the first steps of the discovery area.

Finding the first clients (22) and other shortcomings (21) are the other main topics that are considered; mentorship (7), having the right contacts (6), pitching (3) and focus (5) were all also taken into account.

3.1.2 Validation

In this phase, the startup searches for a repeatable and scalable business model. It usually requires a few iterations until finding the product-market fit. Startups constantly seek to get early validation of people who were interested in their product through the exchange of money or attention.

From the startups interviewed, there were over 150 problems identified. The discovery bar graph classified the problems in the main categories. The three more significant problems identified were Money, Development and distribution of the product and Team. (Fig.3)

The circle graphic shows that 90% of all Startups had problems related to the validation stage, while 10% have claimed not to. This number was lower than that in the validation stage.
A lot of startups got stuck and even quit during this Validation stage. They did this because they reached a moment in which they were no longer passionate about the problem or solution in which the pivot was necessary. This was the reason why very high numbers of startups interviewed were at the validation stage.

Going deeper into the Validation stage showed a more complex graph that we developed which mimicked the previous one. This earned important categories such as money and team. We put on each side various scaled sized circles highlighting the problem and several smaller circles showing the subcategories of these problems. (Fig. 4)

![Oriented scaled graph about the Validation Startup stage](image)

The main groups of problems that we identified were found in both the Team and Money categories. The Team contained issues with hiring and collaboration among team members, while the Money category showed major problems in Financial and Funding Environment.

When at this stage, one of the goals was to achieve traction. However, a set of new problems did appear such as product development, product distribution, finding new clients, improving the retention and decreasing churn.
3.1.3 Efficiency

At this stage, startups focused on refining their business model as well as improving the efficiency of their Customer acquisition process.

There were more than 90 problems identified from the 30 startups that were interviewed. The bar graphics classifies the problems in the main categories. The three most significant problems identified in the area were **Team**, **Money** and **Other issues**.

At this stage, money became less relevant since it was proven that team, not money, was the key tool in developing business efficacy, money, and savings in projects and/or product development. (Fig.4)

![Efficiency % of Startups](chart.png)

**Fig.5.: Main explicatory graphs about Startup problems in the Validation Stage**

We could deduct from the circle graph that 20% of the startups claimed to not have problems with **efficiency**. The other 80%, however, admitted to having them. Lastly, there were six startups that corresponded to not having problems with **validation**, doubling the amount of startups than those in the validation stage.

As a self-questioning issue, the interviewers recorded a lot of problems as “other issues”. This did not keep efficiency problems under control. When we came to discuss the responses, we had a huge “Others” section that could have been very interesting to map.

**Money**, which was in between the two most important problems, now comes into third position and **Team** comes in second. We could conclude then that the functioning of the teams here becomes a key issue.

Going deeper into the Efficiency Stage category and subcategory of problems, we can find a balance in between product, international growth and redefining business models. **Clients** come into the game, and retention becomes crucial. But there is a lag between the time it takes for the team to understand the churn and retention metrics and when they can actually
begin to retain them successfully. This means that while they were trying to figure out why their clients left, they lose more clients. However, money issues were more important to the startups than products at this stage.

![Efficiency Startup stage](image)

**Fig.6**: Oriented scaled graph about the Efficiency Startup stage

### 3.1.4 Growth

During the Growth Phase, the company has achieved liquidity and is growing through repeatable processes.

There were more than 30 problems identified at this stage. The discovery Bar graph classifies the problems into the main categories. The three more significant problem areas identified were those related to **Expansion, Team and Money**.

At this stage, money stops being the top problem. Startups in this phase tended to be more attractive to investors, because the business model and the potential to scale had been proved. Also, most of them had recurrent revenue.

In the expansion area, we were able to set up different categories. Finding a **team able to develop the strategy of expansion** was underlined as one of the main problems.
As a conclusion from the circle graph, 10% of the startups claimed not to have problems in the Growth Phase. However, the other 90% admitted to have experienced them. Finally, the number of startups that corresponded to not having experienced problems with validation were 6 startups, doubling the amount of startups than at the Validation Stage.

Going deeper into the Growth Stage category and subcategory of problems, we found more weight in the expansion category; time and resources, experience, strategy, focus, contacts and goals. The other three points were classified as others.
3.2 Common Problems

By analysing the data related to the four stages, we could extract some valuable knowledge, as there were topics that have some evolution - example: regarding the team issue, at first stage-validation-the problem focus on team gathering, at the efficacy stage team can be focused on how to get better team coordination.

![Graphs comparing the different problems of the different stages](image)

**Team:**

- At the discovery stage, it shows up as the main problem. This involves gathering the right team and represents about 20% of the total of the identified problems. At this phase, it is very important to create a funding team that works well together and that has their goals aligned.

- At the validation stage, Team becomes the third main topic and represents about 19% of the total problems, focusing on hiring, and finding talent as the main issue.

- At the efficiency stage, Team moves into second position, occupying again 19% of the problems. Here, most problems were focused on management and coordination.

- At the Growth Phase, hiring a team prepared for scaling and internationalisation becomes a substantial problem.

**Money:**

- At the Discovery Phase, it represents about 18% of the problems perceived by startups, related to finding the first round of financing. It is important to highlight that a common mistake among new founders, is to try to raise money at this stage, when there is no clear value proposition nor a credible business model that could make the project interesting to investors.

- During Validation, it becomes the major problem representing 30% of the problem share. This can be detrimental, because getting money at this stage can be the difference between success and failure. Funding or financial problems were the main subtopics in this area.
Product

✓ In the early stages, the lack of technical talent among the founders highly influences the development of the product.

✓ This continues to be a problem when hiring the first employees, because tech talent is highly demanded and there is a lot of competition among the startups to hire the best software developers.

In conclusion, we could say that Team, Money and Product were the main problems that startups find during their path.

3.3 Typical problems and our proposed solutions

In most cases, the startups could not provide solutions for the problems they had gone through. However, we recognised most of the problems and were able to propose recommendations both for the startups and for the ecosystem to create an environment that mitigates it.

We selected several interviews that were perfect examples to map the main problems:

3.3.1 Value Proposition

Key stage: Discovery

Startup 1: BrightArch

Description of the problem: "[We needed] to make people understand the problem we were solving/ how they were perceiving the problems they have... [This] slowed us down in getting the cash flow we needed. [It] took time away from concentrating on the customers."

Solution: "[We] got initial funding from Innovation Norway. [We've] worked with freelancers to get the story right/better, and down to the painful problem the customers perceive. [We went] to StartupLab and discussed with other entrepreneurs [there]."

Startup 2: Origo

Description of the problem: "We had an idea (apparently good) but it was not validated. It was never clear what problem we were trying to solve. We tried to test the hypothesis and validate using interviews. It was not effective.

Solution: "The solution that we proposed was well-liked and people saw a lot of potential but it was difficult to identify what the problem really was that we were solving."

Our analysis of the problem: First, as a startup, it is important to find a real problem to solve. Sometimes, what you were trying to sell is not something that people really care that much about. Other times, the problem is communication; so, you must be open to learn.

Our solution: First figure out if there is not a real need or if the problem is communication. To improve the value proposition, see lean startup methodologies. See book: The Mom Test (http://momtestbook.com/). Once you validate that the idea is good, focus on learning to communicate the problem. Listen to your customers, and learn to use their own words to explain
it. A trick: tell people that have never heard about your product what you are doing, and then ask them to explain in their own words what they think it is. Do that several times and you would learn how to explain the problem and your solution.

3.3.2 Problems among co-founders

Key stages: Discovery, validation.

Startup: Riderstate

Startup description of the problem: “Problem: founder’s agreement. When there was money for means and work, the percentages of ownership have to be very well divided. We made the error of having very similar profiles.”

Our description of the problem: Inexperienced founders that don't understand the value of equity. False expectations about the involvement of every person in the team, such as how much work they were going to put in and what they were going to receive in return. Furthermore, if founders were friends, they don't talk about problems quickly enough but rather wait until the problem is very serious.

Our solution for startups: Be sure that everybody in the team is vital for the project and that they contribute with complementary skills and complementary work. Be sure that everyone in the team has the same degree of involvement or at least that their involvement matches the level of their equity. Do vesting and a shareholder's agreement. Get good advice from someone independent and trusted to do this, for example a lawyer who works with startups.

Our solution for ecosystems: Be sure that in pre-accelerators and accelerators there is a talk about this topic. Get experiences founders that have suffered these kinds of problems to talk to entrepreneurs about their experience. For organisations that want to help entrepreneurs it is good to be in contact with experienced lawyers who they trust, and who would operate with the best interests of the founders in mind. Also, be sure that some blog posts on the matter were distributed amongst startups. See: http://themacro.com/articles/2015/12/splitting-equity-among-founders/

3.3.3 Finding the right co-founders

Key stages: Discovery, validation.

Startup: Bubblemee

Problem: The startup identified as a problem the difficulty to bring good team members into the team.

Our analysis of the problem: This is a very common problem for new founders, that try to solve, as Bubblemee did, by going to events, trying to meet new people that could be interested. There were several issues here: first is that to get good co-founders you need to have good people in your network that know you and trust you, and that have complementary profiles to yourself. The ideal situation is that you have worked with them previously in other companies and projects;
trust is very important. The next problem is that you need to have an idea/project attractive enough for people to join you; you also need to be able to show people that you can execute on your work. Perhaps if you were trying to recruit people you don't know, you can show them your past successes on execution to prove it to them. You also need to find people excited about the idea and who have ambitions and profiles aligned with yours. People underestimate the magnitude of the 'leap of faith' that is required for a person to join your project as a cofounder and not a paid employee. People who were experienced in the startup world have less trouble finding cofounders because they have a proven track record and more contacts.

Our solution for the ecosystem: This issue is difficult to solve short term. However, we observed that in good ecosystems founders find each other in a lot of different ways: People that work together as employees in a startup and at some point, decide to quit and create together a new one. Startups at an accelerator or incubator that fail and the founders decide to join other startups involved in the same programme. Successful entrepreneurs that meet other entrepreneurs by being an active part of the ecosystem and recruit them when starting a new project. Entrepreneurs that meet at an event or recurrent meetup and develop a friendship that leads them to start a project together with time. The key pattern is that this relationship require time to develop and also opportunities to work together to get to know each other.

Our solution for startups: There were several things you can do: work with people on small projects who have profiles complementary to yours. This way you see if you work well together. This could be in a hackathon, a startup weekend, university challenges (the kind that bring departments together). Those kinds of events help. It also helps to join a community that has people from different backgrounds. Don’t go to find a co-founder right away, but just to build lots of relationships and see who might be a good fit down the road. It is an investment in the long-run. If you don't have this and you want to go fast, then you need to spend money to hire employees. However, it is best to not just find a cofounder with whom you have never worked and sign them on right away; this can create very bad problems if you bring them in just for necessity.

In the following graph, we mapped the problem and solution for the startup and us (partner).
In the graph (above), a summary of the identification problems by the startup and by the partner, along with the proposed solutions can be seen.

### 3.3.4 Product Development

**Key stage:** Validation.

**Startup:** Nonabox

**Problem description:** "Making the website with an external provider. €200K that went to the trash, Magento. Slowness when making changes. So, instead of hiring internal people, we contracted a freelancer to do the development. We paid him for six months. The day that he applied himself to making the website took 6 months."

**Startup solution:** “The third step was to hire two people to develop it in-house... but it took a ton of time and effort to make these changes and do what we had to do.”

**Our analysis of the problem:** The main problem is not having a technical cofounder, or at least a good advisor that can help you to manage the subcontracting of tech development.

**Our solution for startups:** The best way is to have a technical cofounder as a startup. If you have to subcontract, it’s important to hire people that were very trustworthy, highly recommended, and people with whom you have flexible communication. Work with agile methodologies -- don’t build something over 6 months but rather building something new and improved every 1-2 weeks.

**Our solution for ecosystems:** There is often a big rift between technical cofounders and business cofounders. Not enough mixed profiles. It is very important to develop communities of potential founders that have different backgrounds. Make activities that were open and enjoyable to both business and technical people.

### 3.3.5 Tech team not receptive to customer needs

**Key stage:** Validation, efficiency.

**Startup:** Filmgrail

**Startup description of the problem:** “The tech guys need to get to know the customers and their needs. Without communication on what the different parts do, one might end up feeling that they were the only one doing a job to make this work. Also, external stakeholders need to know what were happening, if they were to keep investing resources, and if they were to feel that already invested resources was worth it.”

**Our recommendation:** Adopt agile philosophy and methodologies in the organisation and the software development process. The mentality shift is not trivial and would require external help, but is the best solution for this situation.
3.3.6 Legal issues

**Stages:** Validation, Efficiency.

**Startup:** Zank

**Startup problem:** "We didn't have experience with legal matters. Lawyers talk to you about lots of things and on many occasions, you don't perfectly understand what they were explaining to you. They talk to you about financial issues or about the world of debt and we weren't familiar with it given our backgrounds."

**Our solution for startups:** Get other startups to recommend lawyers.

**Our solution for ecosystems:** It is very important to identify the best, trusted lawyers for startups. Make sure they were publicised and made known to startups. Do not hire lawyers without experience in startups.

3.3.7 Funding

**Key stages:** Validation, Efficiency, Growth.

**Startup 1:** Glamping Hub

**Startup description of the problem:** "It didn't cost us anything to talk with investors, but we didn't know what expectations they had. At the beginning, we had a very realistic vision but it was not very attractive for business. Later we realized that most investors want to see big numbers (to 5 years, etc.). Investors want to see that ambition."

**Startup solution:** "We were at a fatal point, but we finally left for start up Chile and that helped us a lot."

**Our analysis of the problem:** In a lot of cases, it is not a problem with seed money, but the issue is that startups were seeking investment too soon (because they were still in the Discovery phase and have not validated the idea yet). If you were a new entrepreneur without a track record, it is unlikely that an investor would trust you can deliver.

**Our solution for the startup:** In this case, you need to raise an "FFFF round" (Founders, family, friends, and fools) -- money from people who know and trust you and would invest in you rather than the idea. Another solution is to have someone with a good track record of funded startups in the team, so they can get money from business angels due to a higher level of trust. The solution that the startup found it is a good one, too. Take advantage of public programmes that give funding, like Startup Chile or the SME instrument.

**Startup 2:** Percentile

**Startups description of the problem:** “They don't believe in investing for growth, they look for positive EBITDAs right away, they don't believe in the long term. They measure profitability instead of growth. Ridiculous rounds, pessimistic valuations, entrepreneurs who end up without shares in order to make the project profitable. Little risk on the part of the investment ecosystem. Lots of dilution for founders. There were also difficulties with foreign investment in Spain. There
was an investor who had not wanted to invest because the bureaucracy was too much. A German who wants to invest in a Spanish startup needs to have a NIE. Lots of paperwork. Anyone, regardless of whether they were a business angel, fund, etc."

Our description of the problem: This case is an example of an experienced team that is not able to find funding. Keeping aside the pessimistic point of view - offering problems but not solutions - the complaints reflect realistic issues. This is an example that some investment ecosystem should change in order to help startups to change. There were not enough professional investors experienced with startups. Also, valuations in some countries, like Spain in this case, tend to be very low.

Solution for the ecosystem: There are several ways to fix this, and it depends on the state of the startup (seed money, venture capital, series C, D). For business angels that would supply seed capital (After FFFF round), a proposed solution is to mirror the UK Programme SEIS (http://www.seis.co.uk/). Another good thing is to provide incentives to previous founders who have made a lot of money with a successful startup to invest in other startups and become business angels themselves. Then, for further rounds (VC), you need to generate trust in the ecosystem. For example, when the government genuinely supports startups and doesn't legislate against the startups (which sometimes happens in Europe), it is easier for people to invest and grow startups in the country in question.

Fig.11.: Problem/Solution graph about the problem identification in Startups
3.3.8 International expansion  
Stage: Growth  
Startup: Nonabox  

**Startup problem:** "We had too much money and went too quickly, do it didn't allow us to control it from upper management level. It wasn't that we spent money too quickly, but rather that we lost (or didn't maintain) our business intelligence. We lost a year of knowledge. While Germany or Italy were selling in their regions, we didn't measure results or KPIs in the various markets."

**Startup solution:** "We spent a lot of time starting to measure certain things, even though the projects in each country already had been around for years. The country had already been viable but not investible."

**Our recommendations:** Have a good advisor and experienced team members with experience in expanding into different markets. Also helps to have people with a good network in the countries you are targeting for expansion. Knowledge about the culture of the target markets helps too.

3.3.9 Scaling business/monetization  
Stage: Growth  
Startup: Groopify  

**Startup problem:** "There were too many expectations of growth. Everyone was totally focused on growth and how to create growth. We needed to find ways to grow wherever they could be. It is difficult to balance growth with scalability and operations."

**Our recommendation:** First, you need to have good 'growth hackers' that know how to optimise for growth. There are specialists in this, so hire the right people. Then, you need to learn to say 'no' to investors sometimes. Grow at a pace that makes sense for you; don't put a lot of money on growth when you have not optimized your ratios, customer acquisition costs, and retention.

3.3.10 Lack of time / lack of focus  
Stages: All  
Startup: BrightArch  

**Startup problem:** "[Operations] have to be dealt with at the same time as all the other things, but [had] to be done to keep investors happy. [It was] hard to balance everything. [We] couldn't focus 100% on customers."

**Our analysis of the problem:** Real problem is focus and not having cofounders with different areas of responsibility. For example, someone can be focused on developing the product while the CEO is focused on raising money or running the company.
Our solution for startups: Each area needs a key person to focus on it. Also, learn to say no to things that are not vital. Having good advisors that can help you to focus helps as well. Have people with experience in the company that understand what needs to be done and set priorities.

3.3.11 Lack of experience and lack of good mentors and contacts

Stages: All

Startup: Domos Labs

Startup problem: “[We] had knowledge of part of the industry and part of the value chain. The other part we knew little about. [We] struggled to find out why they had not done this already. [We spent a] long time getting to know the industry, learning about it.”

Startup solution: “[We] joined an accelerator in SV, the premium b2b- accelerator. Many leading corporates and VCs were involved/backing. [We] got access to a lot of people in a lot of industries, who shared their experiences. [We] learned a lot about what investors to look for and what they want to see from you. [This] could not have been done in Norway.”

Startup 2: Cosytech

Startup problem: "[We] had to meet the right people who could help us."

Startup solution: "[We] contacted StartupLab [and] got in touch with people who could help here, like Founders Fund. We were not afraid of talking to people. Inexperienced, but dare to talk."

Our analysis of the problem: Contacts are key for the success of a startup. If the ecosystem doesn’t have the right network to empower the entrepreneurs, then good projects and good teams do not get anywhere.

Our solution for startups: The solution is to get into a good accelerator or to go to good startup contests/events like Pioneers and Startup Pirates. You also need people with the right attitude to network and find contacts.

Our solution for startups: You need to have accelerators and events as well as people that can create the necessary relationships.

3.4 Good practices

This chapter underlines the best practices of startups or strategies that worked.

At the discovery phase, we could point to network reinforcement. Being part of startup communities and building trust can help a lot. Learning and applying agile and lean methodologies are very useful in the discovery phase too.

Another crucial aspect is having the person developing the product as part of the team. We found that having a technical co-founder in the team makes a difference at all stages.

For team development, it is a good recommendation to work in a startup before founding one, and to work in a team, with complementary skills. It is better to start working with people in small projects to see if you were compatible.
At the Validation Phase, it is important to focus only on validation and not seek growth yet. Searching for money as late as you can do best. It is important to achieve efficiency before you start to focus on growth.

Managing clients is the fourth main problem here. Being aware of their needs, and not allowing time to go by, all would set up the culture that would, in turn, help with hiring policies.

Communication and team building are also key.

4. Project challenges

This project itself had been challenging and proved valuable. However, the Efficiency Stage had not been mapped more in-depth as most of the problems were in the category of “other issues” which would have required more data to draw scientifically valid conclusions.

Two main issues influenced the development of this work package; One was the small budget along with the few man-hours which did not allow us to go deeper into one particular subject. There was also a large quantity of partners selected for the programme which caused a lot of coordination difficulties, and added delay to timetables.

Regarding the startups and their problem identification capacities, startups themselves sometimes did not understand what the underlying problems were. Instead, they made round, abstract conclusions that only identified the immediate symptoms that were actually part of a larger problem.

5. Next steps

After the report was written in February 2015, it was shared with all partners and the results were used to write the final report on best practices and on addressing failure in startups. In July 2016, all partners had Skype meetings with the coordinators of WP3 to share best practices that they found in their programmes, and the best ways to help entrepreneurs avoid common mistakes.

The consortium plans to keep the information gathered from the LIFE interviews, so that they can be used for other purposes if the opportunity arises. We hope that the results found from this research and the recommendations given would continue to positively impact the European startup ecosystem for many years.
Index

Fig. 1.: Categorized graphs of Startup problems in the Discovery Stage, 8
Fig. 4.: Oriented scaled graph about the Validation Startup stage, 12
Fig. 10.: Problem/Solution graph about the problem identification in Startups, 20
Fig. 11.: Problem/Solution graph about the problem identification in Startups, 23
Fig. 2.: Oriented scaled graph about the Discovery Startup stage, 10
Fig. 3.: Main explicatory graphs about Startup problems in the Validation Stage, 11
Fig. 5.: Main explicatory graphs about Startup problems in the Validation Stage, 13
Fig. 6.: Oriented scaled graph about the Efficiency Startup stage, 14
Fig. 7.: Main explicatory graphs about Startup problems in the Growth Stage, 15
Fig. 8.: Oriented scaled graph about the Growth Startup stage, 15
Fig. 9.: Graphs comparing the different problems of the different stages, 16

Partners of the LIFE consortium

Thank you for the invaluable contribution to all LIFE partners: Startups.be, Outsight, Tech.eu, F6S, Beta-l, Chamberi Valley, Tetuan Valley, OCC Vilnius, UnternehmerTUM, NUMA, Rob Aalders, Startup100, ZIP and Startup Norway, for the amazing startups interviewed and for Startup Europe for the advice and network.