

# [Trends and concepts of startups](https://assignbuster.com/trends-and-concepts-of-startups/)

1. Definition of startup

Similar to SMEs, there are quite a lot of definitions on startup. According to Eric Ries, the creator of Lean Startup Methodology, as well as the author of the popular entrepreneurship blog – Startup Lesson Learned, startup – in its essential nature, is a human institution designed to deliver a new product or service under conditions of extreme uncertainties.

The first thing to emphasize in this definition is that startup is a “ human institution”, which means process, authority, or sometimes even idleness. They do not seem to be a part of startup. However, all sorts of stories about successful startups all over the world have institution lie somewhere in them, such as recruiting staff, coordinating their work, and creating the enterprise’s culture. Although some startups may conduct these activities radically, they are still the essential components for a successful startup.

For the “ human” part, we often neglect that the value of startup is not the product, technology, or the company’s confidential data. Even when the company only possesses one product, the value still lies in all the people and the organization that creates it. To be more specific, we can take a look at the major acquisitions of startups. In most cases, the important aspects of the original startup disappear, including brand, products or documents. The only thing that lasts is the “ human” part.

The novelty of the products or services delivered by the company is such an important yet complicated factor of the concept. Product, in its broadest meaning, encompasses any value for a set of people who voluntarily choose to be the customers. This stays true to any kind of startup, from packed products in a grocery store, an e-commerce website, a non-profit service or programs organized by the government. In all cases, the organization is establish to identify and deliver new value for the customers, as well as take care of the impact it brings to customers.

The last important component of this definition is the background of innovation. Startups are made up to confront extreme uncertainties. To open a new business that is the exact clone of the original ones, focusing on the business model, targeted customers, pricing and products in most cases is a fascinating kind of investment. However, it is not a startup because its success depends loads on only good execution. That is why a small enterprise may get loan for capital from the bank with uncertainties and risks for the loan owner to assess its potential.

In another research on startup and other relevant concepts, startup is a temporarily designed organization to search for a business model that is repeatable and scalable. Therefore, the supreme objective of a startup is not profit-making, customers-attracting or brand-developing. It is not that these factors are not important and should not be built in this stage, it is just that they are not as important. The objective of this stage is to experience and incessively alter the business model to develop one strong, practical and standardized model for growth and stability later. That is why MBA learners, CEOs or Directors from big corporations still may fail when facing a startup.

Another relevant concept to startup is the advantages of it. Some people may think that obvious advantage is to have an extraordinary founder that has extremely creative ideas and technology no one else can copy from. Though having such founder is definitely a privilege for any startup, it is still not the core element. The core element here should be the startup culture. It is the culture that creates passion, elevates innovation potential, work efficiency and help founders stay true to their original targets. One clear example for this is the way Larry Page brings Google a distinctive kind of culture since the very beginning of the brand.

The next relevant concept to startup is startup culture, as mentioned above. It is so hard defining exactly what startup culture is, but there are some features deciding the startup culture. That is the passion and determination to create a useful type of product for the society. According to Paul Graham, a well-known essayist, programmer, language designer and the co-founder of Viaweb, a “ useful product” is the one that can make wealth for the creator of it. While to Guy Kawasaki, the chief evangelist of Apple and advisor to the Motorola business unit of Google, it is the product that can change the world. This helps the founders constantly make innovation, develop the products , but it carries a deeper meaning lying within, which is “ helping the founders to keep an eye for technology, keeping technology and creativity above profit-making and creating wealth for themselves”. To choose the most important thing that makes startup culture, it would be the passion to create truly valuable products. If the founders can spread this spirit to their co-workers, the startup will surely be successful. Innovation is the best field for anyone who wants to start their own business. The innovation market, compared to other markets, is the least unfairly competitive market. To conclude, almost everyone in this world has that startup dream, but no everyone is daring enough to create opportunities and determination for themselves to make that dream come true.

1. Measures for startups

Researchers on economics have long been established different indexes and criteria to measure the success of an enterprise. Some are used more frequent than others. In the scope of this thesis, some popular indexes used for assessing the success of a startup.

Internal/Economic Rate of Return

The internal rate of return (IRR) is the rate of return used in capital budgeting to measure and compare the profitability of an investment. IRR is often used to calculate the potential of a project or investment. The higher the IRR, the more desirability it is. In theory, a firm should undertake all investments that have IRR rate higher than the cost of capital. In a case that the investment is considered by an enterprise that has shareholders, the minimum rate is the cost of capital. This ensures the project to be supported by the equity holders since such project would add more value to the company.

Another use of IRR is to compare capital projects. For instance, a startup firm may consider between launching a new type of product or expanding the market of the existing product. They can use IRR to compare the feasibility of these two projects. The one that has IRR higher than the cost of capital proves itself to be effective. However, the company should invest in the project with higher IRR as it appears to add more value to the company than the other.

Thirdly, IRR is also useful in evaluating stock buyback programs. Apparently, if a company joins in a stock buyback program, it must proves that its stocks is a better investment than others’, Therefore, they often use IRR as a trustworthy index for this matter.

In terms of calculation, IRR is the “ annualized effective compound rate” that makes the net present value of all cash flows in that particular investment equal to zero. This calculation is simple and easy to conduct, so it is widely used by investors and firm runners in the world

Despite its strengths, IRR still has drawbacks. The biggest drawback of this index is that it only measures the effectiveness of one single project at a time, but not used to rate mutually exclusive projects. For example, if a project has lower IRR than another, but has higher NPV, it should thus be accepted over the second project, assuming that there is no capital constraint. Also, IRR should not be used to compare projects with different duration. For example, the project with higher NPV but lower IRR could be greater than that of the project with similar size, in terms of net cash flow.

Return on equity

Return on equity (ROE) is the amount of net income returned as the percentage of shareholders’ equity. ROE reflects the effectiveness on operation of a company by calculating how much money returned by 1 unit of money that the shareholders have invested. The equation for ROE is as below:

ROE = net income/shareholders’ equity

High ROE yields do not guarantee immediate profits. Since stock price is mostly influenced by earning per share, a company with 20% ROE costs twice as much as the one with 10% per share (in book value)

However, the ROE model can contain some underlying problems. If the investors are not cautious enough, it can distort the basic principles of economics and lead to terrible consequences. The company may have to resort to the financial strategy to maintain artificially a good ROE ratio and hide decreasing business performance. Rising investment levels and the acquisition of shares by support from hoarding cash resources can help maintain the company’s ROE ratio even when the operating profit is reduced.

Competitive pressure is increasing plus artificially low interest rates, as characterized in the recent several decades, has created motivation to mount these strategies and stabilize the psychology of investors. Overload debt investment becomes a burden for the company as the market demand for the company’s product categories tend to change, as many companies discovered during the current economic downturn. It actually creates risk to a company in difficult times.

Return on Assets

Return on Assets (ROA) is an often overlooked but indeed one of the most effective indexes in measuring the success of an investment. It can avoid the distortion created by business strategies. ROA is an indicator of how profitable a company is in relation to its asset. To be more specific, it measures the total profit a company can make when it has one unit of asset. ROA gives an idea of how effective the management is with its assets. The calculation is fairly simple, which is illustrated as below:

ROA = net income/total asset

Obviously, ROA has calculated the amount of property to be used to support the business activities. This index determines whether the company can generate large enough a rate of return on net assets than simply show that the rate of profit on sales. Those companies that own a large amount of properties need a higher level of net income to support operations than those that own less property. Many companies use external resources for production and logistics operation from many specialized providers in an attempt to depend less on assets. These assets do not disappear – they simply shift from a company to the next. However, in nature, even the business type that depends less on assets has limited number of liquid assets and needed fixed assets to continue with business operation.

Using ROA as a primary measure of effectiveness has quickly attracted the attention of the managers on the necessary assets to maintain business operations. The senior managers today have more freedom to manage external resources of the assets and business activities related to the more specialized companies.

1. Trends of startups nowadays

According to investors, economists and business associates around the world, the startup trend is something that continuously changing and evolving, which leads to the fact that it is almost impossible to predict the trend in the next upcoming years. However, in recent years, people have noticed a clear pattern of startup, which is to shift from “ wall and brick”, also known as physical business to technology – related startups. Some startup giants like Google, HP, Facebook… are all technology – related. This is quite understandable since innovation and technology is something that is original and hard to copy from. Also, in a world that people are already filled in with their basic needs, they need something to elevate the quality of life, something that satisfies the higher level of needs. Below are some examples of increasing startup trends nowadays

Virtual reality: This is the dream of all technology and science fiction addict. This innovation almost seems unreal. However, with the help of Moore’s Law and the rapid improvement of processors and accelerometers, it will come true in the near future.

Software for enterprises: Scott Weiss – partner of Andreessen Horowitz – a famous venture capital firm – one said: “ 2015 is the year that firms need to thrive a lot to fit in the “ hide and seek” game, which means they must be fully aware that the demand for customers to communicate with the enterprises via software or applications is increasing. Therefore, apart from the hardware, the companies now need software with user-friendly design, layout and usage, especially on the mobile version.

Machine learning and big data: In recent years, machine learning and big data have become common terms in the technology industry. Differ from the past, when questions like “ How many red shoes have been sold in Kentucky?” were asked and analyzed, nowadays, we need to answer questions like “ How many red shoes will be sold in Kentucky?”. And these questions will be responded with the help of these technology. The machine learning will not work separately, but they have connection via applications. There will be no functions standing alone, and ultimately, we can use it as prediction device.

Full-stack startup: Full-stack is a relatively new term to the market. It is how the company knows and implements the whole process. Apple makes a perfect example of this as it makes its own chips, apps and retail stores. For startups, Uber is considered full-stack. Instead of selling software as an add-on, they build the whole service using the modern software.

Containers: Containers is not any new, they have been around for ages, but their popularity rises for a few reasons. Since Windows is no longer the data center, containers can run on other data system. Another reason is the “ microservices” app is rising, and these apps are especially suitable for containers because they are discrete pieces that can scale independently.

Digitalhealth: Some kinds of medicine as well as health equipment are now manufactured by people with no medical license. The mobile medical data system is like a container for all diagnoses and test results of the patients, just like Apple’s Healthkit. All these histories are not necessarily “ big data”, it can never be tracked or cross-correlated before. When technology like Healthkit receive support, millions of software technicians can build top applications based on data but not affect the privacy of the device’s owners.

Online market: The online markets like eBay or Craigslist have achieved great success, However, the trend of related startup would likely be businesses that provides niche services that can be found on Craigslist, like cab sharing or sublets. This is the marketplaces where customers can find more customized services, like Instacart or Glamsquad.

Security: In 2014, there are numerous recorded security faults, such as: information leakage of Sony, security breach in Target, hacked personal photo on iCloud that leads to reveal nude photos of many celebrities… That makes people suffer from privacy issue. Therefore, it is no surprise that security and privacy are trends for startups in 2015. If the companies can provide services which identify how and when personal information is breached and lock all “ data” to prevent severe damages, it would be amazing.

Bitcoin: Bitcoin – invented by Satoshi Nakamoto in 2008, is an online payment system. The system works based on a peer-to-peer basis, which means that users can transact directly without using an intermediary. Bitcoin works differently from other typical monetary units. There is no central bank that manages and it only depends on other Internet websites. Balaji Srinivasan – a Stanford academic and co-founder of a genetic-testing company called Counsyl, said that bitcoin is relatively new, so it is likely to be adopted and increased significantly in 2015. Also, he pointed out that we could expect new payment apps to develop for bitcoin, and we should consider them infrastructure.

Crowdfunding: Crowdfunding is a popular term nowadays, even in Vietnam. It is basically a business investment or model that receives funds from the general public. With smartphones as platform, we can not only access to crowdfunding platforms wherever we want, whenever we want but also access to the crowd itself to get the funds.

To sum up, there are myriad of trends involving startups nowadays. Above are only ten typical trends, which means there are many more to count. People will no longer struggle to find out a way to start their own business. For the government, if they can predict trends in the upcoming years, it is likely for them to come up with a suitable set of policies to support startups.