

Executive Summary

From idea to profit
- an empirical analysis of the development processes
of start-ups

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Executive summary

The study at hand analyses the early development of start-ups in the sectors of alternative energy and information technology. The analysed start-up process ranges from the time of the first discussion about the start-up idea up to the first substantial profits, as well as the time required for each stage of the process.

Six out of ten start-ups follow the classic start-up process

A majority of the founders follow the classical course of start-up formation: After the idea has been discussed, the founder(s) draw up a business plan and register their company. After that, they generate their first revenues and profits. However, four out of ten companies deviate from this process: they either do not write a business plan at all, or they prepare one at a later stage. We found a total of four different types of start-up processes.

Business plan serves different purposes

The business plan seems to have different functions for the founders: While some founders use it as an internal planning and control tool, others use it more as a communication tool for investors. Founders with less complex business models and those who do not rely on external investors sometimes refrain from composing a business plan in general.

Business models are profitable in less than two and a half years

On average, it takes around 29 months to turn a business idea into a substantially profitable company. On average, it takes 12 months from the idea discussion until the company is registered, and an additional 17 months up until substantial profits are made. However, the total duration of the start-up process can vary considerably: While some companies become profitable within one year, others take almost four years.

Innovation degree determines the duration of the start-up process

Various factors determine the overall duration of the start-up process. The more innovative a business model is, the longer the start-up process takes. For example, business models which are based on a radical innovation need up to 16 months longer until they generate substantial profits than non-innovative business models. The process takes even additional nine months in case patents are involved. Start-ups in the alternative energy sector also take almost nine

months longer than start-ups in the information technology sector. Overall, the start-up process seems shorter in Germany compared to the USA.

Not all start-ups are radically innovative

Start-ups in alternative energies and information technology are not radically new per se. For example, only one in nine analysed start-ups is based on radical innovation. One out of three start-ups generates an improvement of an existing product or service. 50% of all analysed start-ups are based on imitation. Business models based on such imitations are particularly quick to establish themselves on the market and also effective in creating jobs. This should be taken into account within SME and start-up policy measures.

One size does not fit all: Economic policies should consider different start-up processes

Until now, it was assumed that companies follow a uniform start-up process. However, it has been shown that four out of ten start-ups take a deviant path. To avoid excluding large groups of start-ups from policy measures, different start-up processes should be taken into account.