September 2021 - Edition 1

Startup Development Report 2021

How does startup support impact the growth of Dutch startups

Introduction

startups contribute significantly to new products, services and knowledge. They are therefore crucial to innovation. But to make a big impact on our economy and society, startups have to grow into scale-ups. And only 16% of all Dutch startups succeed in doing so (Techleap, 2020[1]).

In recent years, the supply of startup support in the Netherlands has increased significantly. Since YesDelft was founded in 2005, **over 100 accelerators** have been added to offer startups collective support in the form of support programmes. Furthermore, research from the Dutch Association of Venture Capital Companies shows that the amount invested in startups each year has increased fivefold since 2010.

Despite the increasing supply of startup support and funding, the number of startups that grow into scale-ups is not increasing, according to research by Erasmus Centre For Entrepreneurship (2020[2]).

We are proud to present the very first Startup Development Report. In this report, we share insights in how Dutch startups grow and what the impact of support and funding is on the growth of the company. The goal of our initiative is to learn which support has a positive impact on the growth of startups so that more startups grow into scale-ups.

[1] 3 key challenges the state of dutch tech 2020. Techleap. Accessed 14 September 2021, from https://www.techleap.nl/articles/3-key-challenges-the-state-of-dutch-tech-2020/

[2] Scaleup Dashboard 2020. Erasmus Centre for Entrepreneurship. Accessed 14 September 2021, from https://www.ece.nl/app/uploads/2020_ScaleUp_Dashboard.pdf

In the past two years, we have analysed the growth of **660 Dutch startups**. In addition, we investigated the impact of mentoring and funding on the growth of **187 startups** in Brabant. For this we used StartupFramework©to objectively measure the progress of growth. The Startup Development Report was created in collaboration with the Province of North Brabant.

We invite you to take note of this report. We call on you to join us in collecting more and better data and learning from it. It is our ambition to publish a new edition of the Startup Development Report every year. In this way, we all contribute to an effective startupecosystem. Where the focus is on helping startups become scale-ups. And where advisory and financing instruments fit seamlessly.

We wish you a lot of pleasure reading this report.

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Content

Startup Development Report 2021

Guidelines for reading

In chapter 1, we take you through what we mean by the StartupFramework. In chapter 2 we will take you through the top 5 insights of data we have collected from 660 startups. Of this population, we have coached 187 startups intensively for 10 weeks. The top 5 insights are presented in chapter 3. In chapter 4, we present the main conclusions and recommendations.

1. StartupFramework©

Consistent behaviour of the startupteam has a major impact on the speed and efficiency with which startups grow into mature companies. Since 2018, we have been investigating how consistently Dutch startups grow. Our analysis, among 660 startups, shows that entrepreneurs lose focus when they raise too much capital and expand the team too quickly. But what exactly is (in)consistent growth and what happens when there is too much capital or the team is expanded too quickly? To analyse this, we will first explain StartupFramework.

The StartupFramework©is designed to make consistent growth visible. It allows us to examine how startups grow and the impact of startupsupport on the growth of startups.

The model builds on Startup Genome's (2019[3]) survey of 34,000 US startups. It shows that startups that grow consistently have a higher market adoption (growth in the number of customers). They require fewer resources (time and money) than startups that grow inconsistently.

A startup grows consistently when it balances its day-to-day operations with market adoption. This means that the company uses all its resources to achieve the milestones of the current life cycle.

[3] Global Startup Ecosystem Report 2019. Startup Genome. Accessed 14 September 2021, from https://startupgenome.com/reports/global-startup-ecosystem-report-2019

The opposite of consistent growth is inconsistent growth. A startupgrows inconsistently if it behaves as if it is further along than market adoption indicates. This means that the company deploys its resources in activities that do not contribute to achieving the milestones of the current lifecycle. Startup Genome's research shows that inconsistent growth is the main reason why 90% of all startups fail or get stuck in their growth.

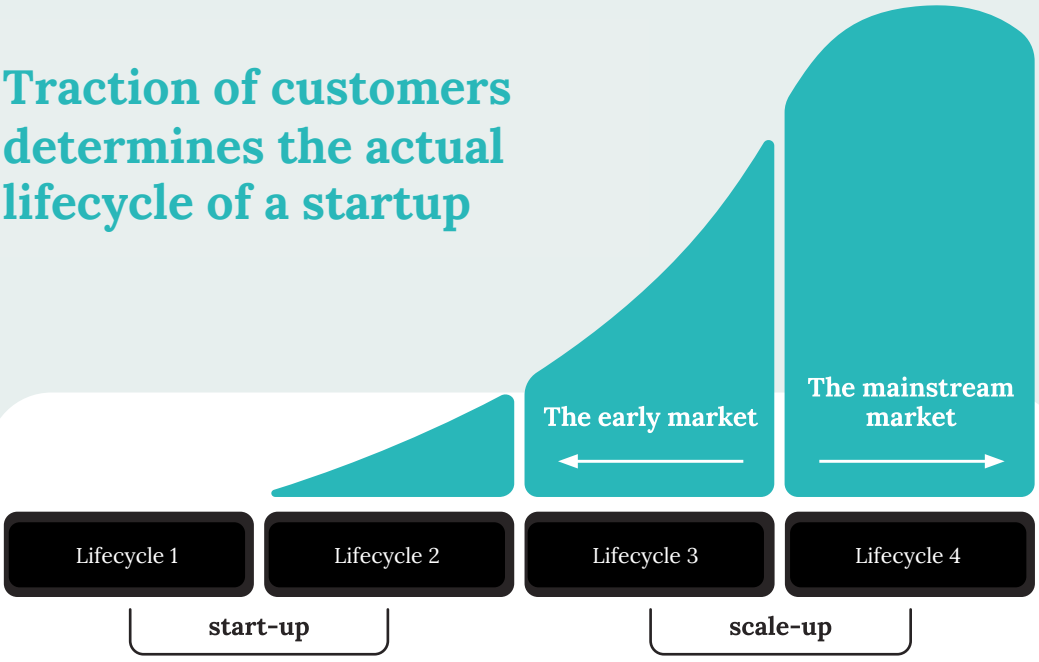
1.1 Lifecycles

StartupFramework©firstly measures which lifecycle a startupis in. startups evolve through four lifecycles before transforming into a fully-fledged company (Blank, 2005[3]).

The first two life cycles revolve around finding product-market fit and call for a learning operation. The third and fourth life cycles revolve around accelerating growth and require an execution-oriented operation. Market adoption determines the current life cycle of a startupand is measured based on: market size, number of users, number of customers, % repeat purchases, % lost customers and cross-selling. Each life cycle has different measurement indicators that reflect market adoption.

[4] Blank, S. (2005). The four steps to the epiphany: successful strategies for product that win. Published by K & S Ranch.

Traction of customers determines the actual lifecycle of a startup



1. In the first lifecycle, there are no customers yet. There may be some users who (un)paid test parts of the product in practice (e.g. testing a Proof of Concept). The number of customer interviews is an important measurement indicator to discover the first customer segment.

2. In the second lifecycle, the first customers (the early evangelists) use the first version of the product (up to 2.5% of the total market (TAM). The percentage of repeat purchases and lost customers are important measurement indicators to determine product-market fit.

3. In the third lifecycle, multiple customers (the early adopters) use the second version of the product (up to 16.5% of the TAM). The growth of the number of customers and the cost of acquisition compared to the total value the customer brings to the startup(CAC/LTV ratio) are important measurement indicators to determine the scalability of the business model.

4. In the fourth lifecycle, many customers (the early majority) use the developed version of the product (from 16.5% of the TAM). In addition to the aforementioned measurement indicators, cross-selling is an important unit of measurement for influencing the total value of customers (LTV).

1.2 Milestones per lifecycle

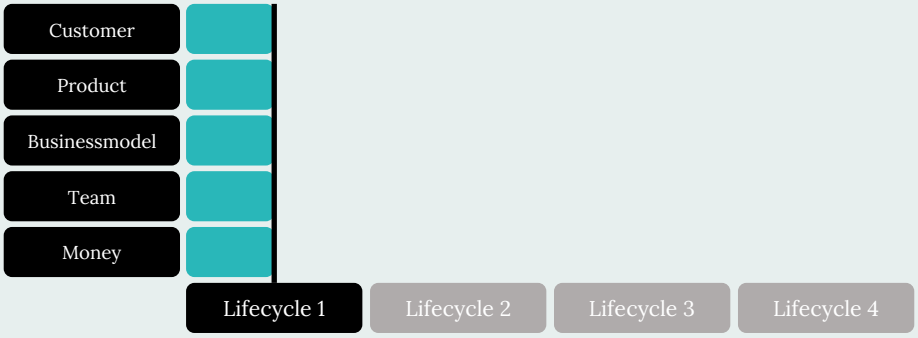
Time and money are scarce, especially for startups that still have little or no turnover and do incur costs. Every cycle of life has three customer-focused milestones, which are largely based on Customer Development by Steve Blank.

The first milestone provides valuable input for the second milestone and so on. If a startup skips a milestone or does not complete it, inconsistent growth occurs. StartupFramework© measures if the spending of time and money is aimed at achieving the milestones of the current lifecycle. This gives us insight into what is going well and where opportunities for improvement lie.

1.3 Consistency rating

Example 1: startupgrows completely consistently.
Below is a company picture of a startup operating in lifecycle one with a consistency rating of 10. This means that this company does not yet have any paying customers and is using its resources to achieve the milestones of the current lifecycle. In practice, this can be recognised by a small team using their time and money to test the commercial and technical feasibility of their idea.

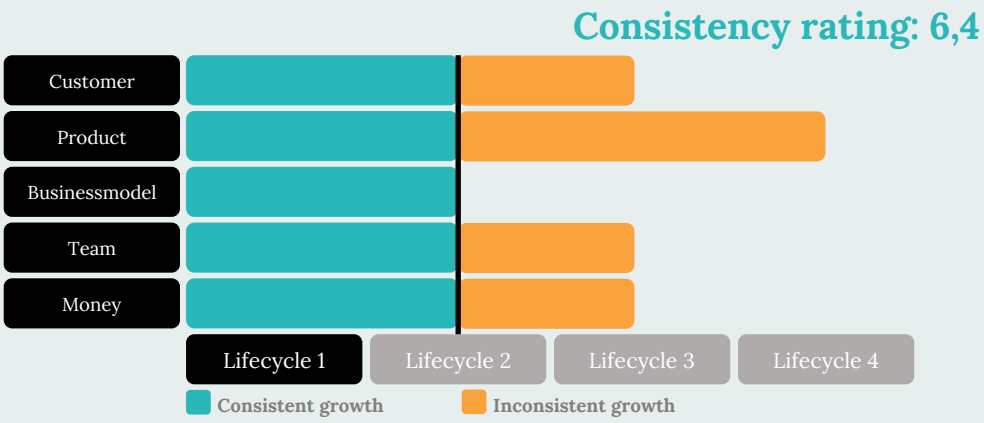
Consistency rating: 10



Consistency is expressed in a consistency rating on a scale of 1 to 10. A startupscores a 10 if it is fully consistent and a lower rating as consistency decreases. The consistency measurement distinguishes between the five core dimensions of a startup: customer, product, business model, team and money.

Example 2: startup grows inconsistently

Below is a company picture of a startup operating in lifecycle two with a consistency rating of 6.4 This means that this company has one or a few customers who buy the same product and behaves as if it is further along in the core dimensions of customer, team and money than market adoption shows.



In this example, the company is trying to compensate for the lack of product-market fit with funding to hire additional people to scale up sales and marketing.

In summary, StartupFramework© measures the current lifecycle of the startup based on market adoption. Consistent startups devote their resources to achieving the milestones of the current lifecycle, inconsistent startups skip milestones which increases the risk of failure. Now that the model has been explained, our insights follow in the following chapters.

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How Dutch startups grow: top 5 insights

2. How Dutch startups grow: top 5 insights

In the past two years, we have investigated the growth of 660 Dutch startups on the basis of a self-reporting assessment. The founders of startups have completed a questionnaire with open and multiple choice questions. These questions are about market adoption, focus and activities of the core team.

The answers were then analysed by an algorithm. The algorithm determines the current lifecycle of the startup based on market adoption. The algorithm then determines the consistency with the current lifecycle on the basis of the use of resources on the five behavioural dimensions.

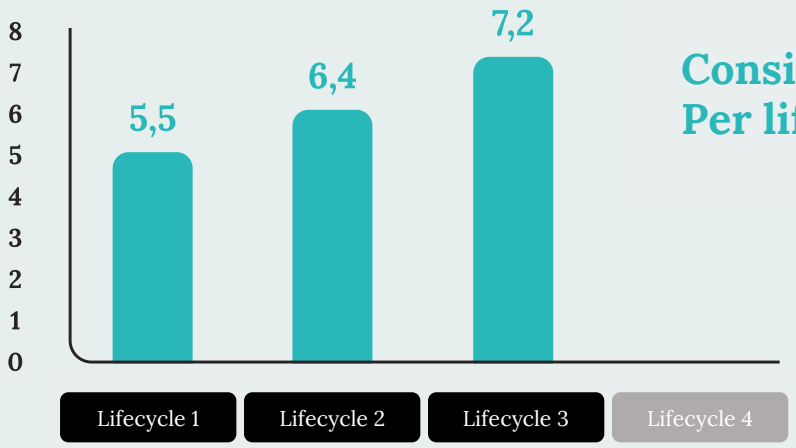
The growth of a startup is expressed in a consistency rating on a scale of 1 to 10. A startup scores a 10 if it is growing fully consistently and a lower rating as consistency decreases. Below we share our five key insights into how Dutch startups grow.

1. **5% of Dutch startups grow consistently**
2. **Inconsistent growth occurs in every sector**
3. **The highest inconsistent growth occurs on the behavioural dimension team**
4. **startups that focus on one product-market combination grow more consistently**
5. **92% of early-cycle startups seek money to fund inconsistent growth**

1

5% of Dutch startups grow consistently

Consistent growth is rare in the Netherlands. 95% of the startups grow inconsistently on one or more core dimensions. This is considerably higher than in America where 70% of the startups grow inconsistently. The graph below shows the average consistency figure per lifecycle and shows that lifecycle three startups (scale-ups) grow significantly more consistently than lifecycle one startups.



Consistency rating Per lifecycle

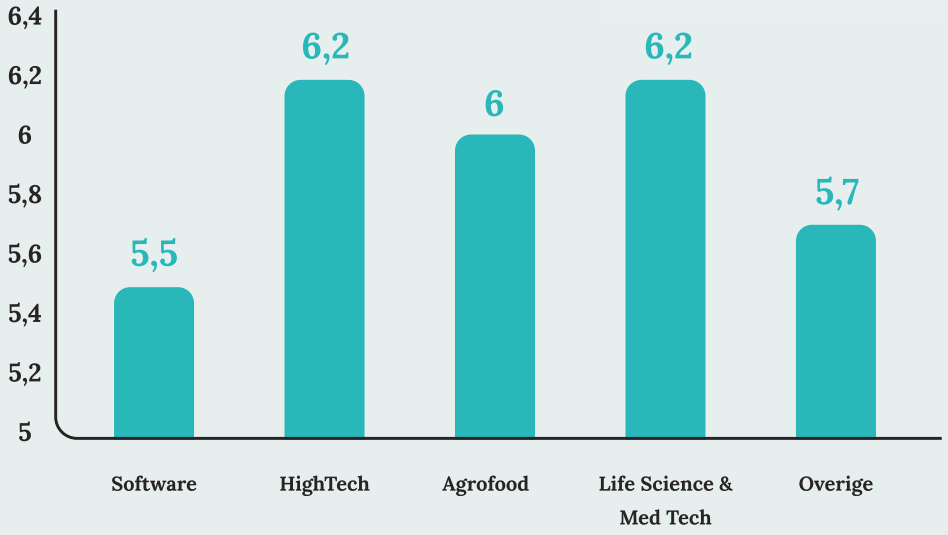
It is positive to see that the consistency rate per lifecycle is increasing. However, we must not forget that only a small percentage of cycle one startups eventually reach cycle three. Our research shows that particularly cycle one startups behave as if they are further along than market adoption indicates. In practice, this can be recognised by resources deployed in sales and marketing activities and funding requests to scale up production.

2

Inconsistent growth occurs in every sector

We have examined the growth of startups in several sectors and, based on our initial insights, we see inconsistent growth in every sector. The chart below shows the average consistency figure per sector.

Consistency rating per sector

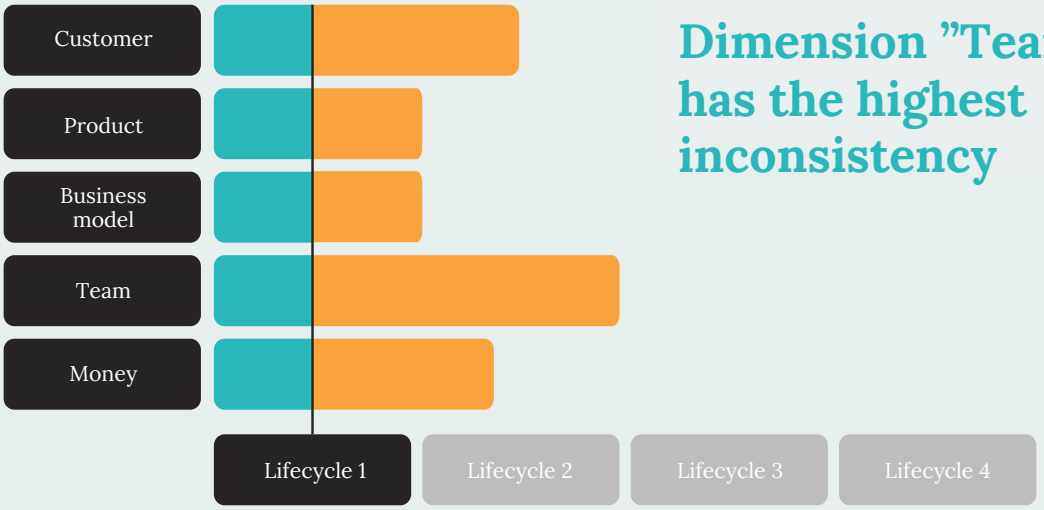


The higher consistency figure in HighTech and MedTech startups is mainly explained by the available knowledge of product validation and development. On the behavioural dimension product, HighTech and MedTech startups grow quite consistently. On the behavioural dimension customer, the highest inconsistent growth occurs in these startups.

3

The highest inconsistent growth occurs on the behavioural dimension team

In contrast to HighTech and MedTech startups, the highest inconsistent growth occurs in other startups on the behavioural dimension team. This has to do with the speed with which team members are recruited and the activities performed by individual team members. The graph below shows the average behaviour of a cycle one startupand shows that an average cycle one startupbehaves on the team behaviour dimension as if it were at the end of cycle two.



Dimension "Team" has the highest inconsistency

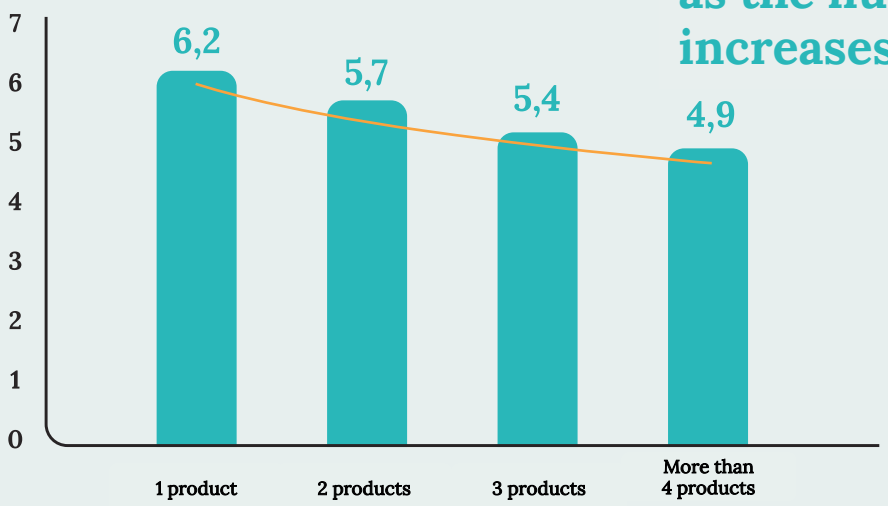
In practice, inconsistent growth of cycle one startups on the behavioural dimension team can be recognised by attracting too many new team members too quickly and by attracting scale-up specialists instead of startupspecialists. Scale-up specialists are crucial in cycles three and four of life, but attracting scale-up specialists in cycle one of life leads to inconsistent growth.

4

Startups that focus on one product-market combination grow more consistently

startups that focus on one product-market combination grow more consistently than startups that want to bring multiple product-market combinations (PMCs) to the market simultaneously. The graph below shows the average consistency figure per number of product-market combinations and shows that the consistency decreases as the number of product-market combinations increases.

Consistency decreases as the number of PMC's increases



The majority of Dutch startups focus on multiple product-market combinations simultaneously. We see that this leads to inconsistent growth. In practice, this can be recognised by different customer segments, high sales costs and a low percentage of repeat purchases. We think this is because startups think in terms of opportunities and therefore want to serve every customer who shows interest as well as possible.

5

92% of early-cycle startups seek money to fund inconsistent growth

You would expect that cycle one startups would be looking for money to fund activities that lead to the achievement of the milestones of the first cycle of life. The opposite turns out to be true. 92% of cycle one startups seek funding for activities that do not matter in the first life cycle and are only relevant in the second or third life cycle . Over two-thirds plan to spend their funding on activities that lead to inconsistent growth.

69% of the funding-need is not relevant to grow to the next lifecycle

3. What is the impact of startup support on the growth of startups.

In addition to the growth of 660 Dutch startups, last year we investigated the impact of support on the growth of 187 life-cycle one startups. Our research was limited to mentoring in the form of workshops and acceleration programmes.

We measured the impact of support in terms of growth of consistency rate and life cycle. The idea behind this is simple. Growth in life cycle proves that market adoption is increasing, bringing the startupone step closer to scale-up. Growth of consistency rate proves that the startupis using its resources in a more focused way in order to achieve the milestones of the current lifecycle. As a result, less time and money is wasted on activities that do not matter in the current cycle of life. Below we share five insights into the impact of startupcoaching on the growth of cycle one startups.

1. **The duration of support affects the growth of lifecycles and the consistency rate of the startup**
2. **Collective support have a higher impact on the consistency rate than individual support**
3. **The amount of funding affects the growth of the startup's consistency rate**
4. **The content of support affects the growth of the consistency rate of the startup**
5. **The consistency rate drops within two months of support**

1

The duration of support affects the growth of lifecycles and the consistency rate of the startup

We measured the effect of the duration of support in relation to the growth of current life cycle and consistency rate. We compared three different support variants, namely a one-day workshop, a five-week acceleration programme and a ten-week acceleration programme. The graph below shows that the duration of coaching has an influence on the increase of the actual life cycle and the consistency score.

Although the effect of a long-term programme is greater, we see that the average satisfaction is higher for shorter programmes. Entrepreneurs rate a one-day workshop highest. The increase in the consistency rate is therefore not linked to satisfaction with a programme.

	Increase in actual stage	Increase consistency score
1 day workshop	0%	0%
5 week acceleration program	0%	12%
10 week acceleration program	9%	36%

Support has an impact on the consistency rating

2

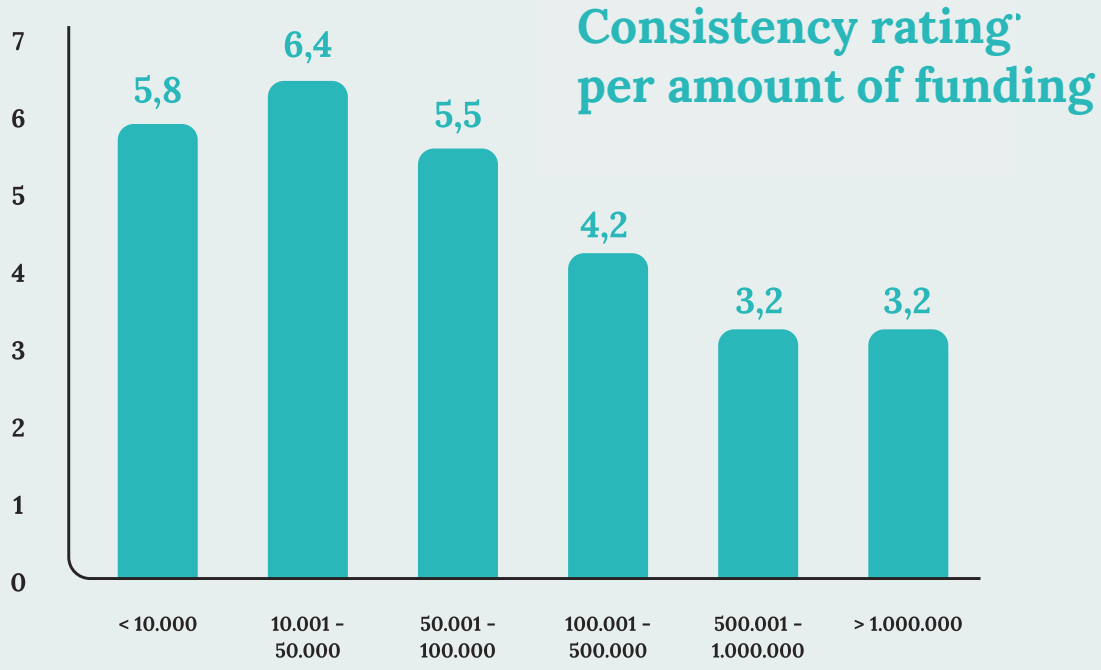
Collective support have a higher impact on the consistency rate than individual support

In addition to the duration of coaching, we measured the effect of collective and individual coaching on the growth of the consistency rate. The individually coached startups were less committed than the collectively coached startups. In practice, this manifested itself in not carrying out the practical assignments and postponing the coaching sessions. The consistency rate of the individually coached startups showed no measurable growth while the consistency rate of the collectively coached startups grew by 36%. We do not expect collective coaching to be the best form of coaching for startups in all life cycles, but our research shows that in life cycle one collective coaching has a higher impact on the consistency rate than individual coaching.

3

The amount of funding affects the growth of the startup's consistency rate

The amount of funding affects the consistency rate of the startup. The graph below shows the average consistency rate of funded startups by funding amount. The graph shows that higher funding amounts lead to lower consistency rates.



Raising capital too quickly or too much makes startups run ahead of market adoption on several behavioural dimensions. With this, we do not want to argue for lower funding amounts, but for funding criteria that match the milestones of the current lifecycle.

4

The content of support affects the growth of the consistency rate of the startup

Each cycle of life requires a different kind of support. Last year, we coached 18 cycle-one startups that had participated in a scale-up programme (meant for cycle three) prior to our coaching. We see that the consistency rate of these startups is 17% lower than comparable companies that have not participated in a scale-up programme. It is therefore important to match the content of support to the life cycle of the startup. Programmes that can lead to an increase in the consistency rate of cycle three companies lead to a decrease in the consistency rate of cycle one companies.

5

The consistency rate drops within two months of support

As the above insights show, it is possible to increase (and decrease) the consistency rate of startups with different forms of coaching. Unfortunately, the growth of the consistency rate does not continue after the end of the coaching. We measured the consistency rate of 37 startups two months after the end of the coaching. The average consistency rate of these companies decreased by 7%.

Conclusions & Recommendations

4. Conclusions

Based on these insights, the main conclusion is that only 5% of Dutch startups grow consistently. startupmentoring in the Netherlands is still barely using the insights into life cycles and consistent growth and is not geared towards the actual life cycle and consistency rate of startups.

The success of startups is currently measured primarily in terms of the number of financing rounds they have completed and the number of employees they employ. These results seem very positive and useful at first glance, but they do not provide any insight into the value created in the market and thus the chance of becoming an impactful 'mature' company. Indeed, both measurement indicators say nothing about the market adoption of the developed solution.

Secondly, it appears that funding alone is not the solution for cycle one startups. There is a lot of talk in the Netherlands about[3] the shortage of early cycle venture capital. Ask a cycle one startupwhat it needs and the answer is money. However, our insights show that funding is unconsciously a driver of inconsistent growth. The call for more early-cycle capital is too one-sided. The conversation should be about how funding can be used as a tool to increase the current life cycle and consistency rate of startups.

Finally, our insights show that it is possible to increase the consistency rate of startups with targeted startupcoaching. The duration, content and form all have an impact on the growth of the consistency rate. In the right composition, the impact of startup mentoring on the growth of startups can be maximised. It is essential that the support and funding is tailored to the current cycle of life.

[3] Global Startup Ecosystem Report 2019. Startup Genome. Accessed 14 September 2021, from https://startupgenome.com/reports/global-startup-ecosystem-report-2019

5. Recommendations

1 **Create a common language**

We understand each other better if we use the same words and definitions. This way we avoid situations where startups that raise millions in funding are called scale-ups, without having paying customers.

2 **Use the same data**

We can better assess the impact of mentoring if we use a standard by which we measure growth of startups. This will also allow for a benchmark.

3 **Collect data structurally**

We can better manage the impact of mentoring if we structurally collect data on the consistent growth of startups and the impact of external mentoring on the current lifecycle and consistency rate. This creates insight that makes it possible to learn from what goes well and what can be improved. This offers the possibility to accelerators and financiers to specialise in life cycle, sector and specific milestones.

4 **Align support and funding**

startups benefit from an ecosystem where the support of different parties is aligned so they maintain focus on consistent growth. In the province of Noord-Brabant, the collaboration between Braventure and BOM has provided many insights as a result of which the supply is better aligned and more cycle-one startups have progressed to cycle-two.

Author

Entrepreneurship is the driver for change. From sustainable food, a healthy future, climate-neutral energy to the development of promising key technologies. The Brabant Development Agency (BOM) ensures that startups that contribute to this have a flying start and can grow into scale-ups, that companies in Brabant always have the right facilities at their disposal and that companies with internationalisation ambitions can realise them. In the past four years, the BOM has realised impact together with more than 600 companies.

BRAVENTURE
BE BRAVE, BUILD YOUR BUSINESS

Braventure is a partnership of thirteen partners including knowledge institutions, development agencies and the province of Noord-Brabant. Our joint aim is to accelerate Brabant startups through knowledge, development, community and funding. Braventure's mission is to have Brabant belong to the top entrepreneurial ecosystems in Europe. We lead the way by connecting initiatives, showcasing successes, increasing learning capacity and jointly developing solutions for blind spots. In this way, we form a breeding ground for innovative startups and scale-ups in Brabant that are working on solutions for the world of tomorrow.

Author

Gritd.

We are on a mission to significantly increase the number of startups that grow into scale-ups. For years, only a small percentage of all startups succeed in becoming a scale-up. At Gritd, we know that startups get stuck because they grow inconsistently. That's why we developed StartupFramework©. Through data analysis, we learn how startups grow and what the impact of support is on the growth of startups. With this, we help startup advisors and financiers excel in startup support. We provide data-driven insights, training and content to help startup advisors and financiers optimise the startup ecosystem and have a positive impact on our economy and society. | www.gritd.nl

Colofon

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