

EXAMINATION OF THE APPLICABILITY OF BUSINESS MODELS IN START-UP COMPANIES

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Abstract: Development's main driver is innovation, still fact 90% of start-ups – operating as industry's important innovation bases - will fail.

Current studies primarily examine success of start-ups with disruptive - mostly IT-related - capabilities setting them as benchmarks. Research's subject is which business model could result higher success rates of start-ups having average abilities. With primary questionnaire research surveyed expectations of start-ups regarding their business models and also examined them with secondary literature research. Start-up's main challenges were analysed in detail and identified most important reasons for their failing.

Research's conclusion showed the expectations of start-ups regarding their business models exceed existing models and stretch their limits. Nature of start-ups are not to pay enough attention to planning/organization of business operations. Based on the results we started developing foundations of chameleon business model, which allows better, more flexible planning of business operations, what may contribute to increasing success of start-ups.

Key words: business model, challenge, expectations, planning, start-up

Introduction

In our fast-changing economic environment, we place a high value on innovation, innovative ideas and innovation-driven enterprises. The definition of a start-up comes from American entrepreneur Eric Ries, author of *The Lean Start-up*, which says that a start-up is an institution that provides a product or service that incorporates innovation under uncertain conditions (Ries, 2011). In all cases, start-ups are characterised by the fact that their solutions involve innovation relative to the current state of the market, they implement non-business plans, they listen to market needs, they seek appropriate business models by reacting quickly, and they design both product and business model for the international market in order to be scalable.

Being a start-up is a state of being for a certain period of time. When a company becomes a stable market player, turns a profit and the initial team of a few people swells to hundreds, we call it a scaleup, but the start-up mindset remains in most cases, and the risk-taking and continuous innovation necessary for further growth remains part of the company culture". Scaleup means a start-up company in the growth and production phase.

The high failure rate of these businesses is thought-provoking and worthy of deeper analysis. Therefore we set the following research objectives as the main aim of our research: to assess the awareness of the use of business models, to assess expectations of business models and to analyse the suitability of business models for start-ups.

Business models: an introduction

Business models are one of the most important management topics of our time. They can be discussed from different points of view such as:

- theories and utilization (Zott et al. 2010);
- their role in info communication and e-business (Eisenmann 2002; Nemeslaki et al. 2008);
- business model design (Osterwalder et al. 2005);

- tools of innovation (Horváth et al. 2018); its role in business development (Móricz 2009; Morris et al. 2005, Teece 2017);
- in sustainability or green aspects (Seroka-Stolka et al. 2017; Geissdoerfer et al 2020).

Business model innovation is mainly related to maintain or improve competitive advantage, nowadays with a preferred focus on sustainable, green solutions (Andreini et al, 2022; Bendig et al, 2022; Chapman et al, 2022). Business models should serve as a link between strategic planning and the operational levels, as a tool for helping the operation under the continuously changing environment. As it is defined by Osterwalder et al. (2005), a business model describes how a business creates, delivers and captures value, business models shall be adaptive and open for change to be suitable to follow the changes in the environment. Besides green solutions, lean business models are also preferred by many industries like technology, biotechnology, computer science, telecommunication (de Faria et al., 2021; Shepherd and Gruber, 2021).

Primary survey among start-up companies

To analyse the importance the business models and to explore the special requirements of their users, a primary research survey was conducted among people who work with start-ups (direct stakeholders) and people who work closely with start-ups (external opinion leaders), with a particular focus on the latter, given the fact that the functioning and success of start-ups is highly dependent on the quality of their support environment.

As the research was focused on the business behaviour of a very specific and rare formation in entrepreneurial practice – start-ups – we could only consider the relevant respondents whom we know personally and have works or presently work in this field or have or had close working relationship with this field. Accordingly, the questionnaire was sent to potential respondents in two ways: through start-up platforms and based on personal referrals.

The first question asked how consciously the start-up entrepreneurs use their business models. The statements and the answers are summarized by Fig. 1.

56% of respondents think that the model should be searched consciously, 29% want to develop as they go through the entrepreneurial process (by self-learning or learning-by-doing methods), while 15% think it is unnecessary for some reason.

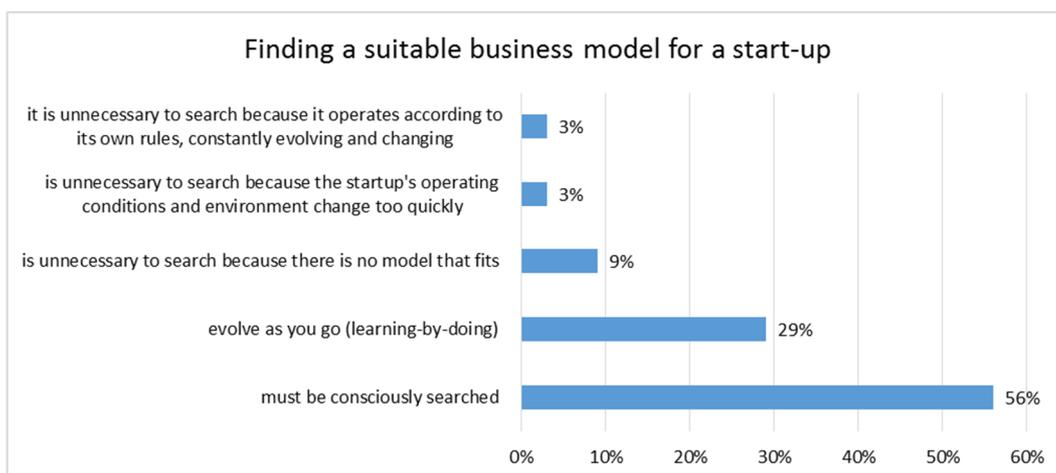


Figure 1. Respondents opinion about choosing a suitable business models (%)

Source: own research

Respondents were also asked about knowing the principles of existing business models, namely subscription (Netflix), platform (Amazon), network (multi-level marketing), collective business model (franchising, business alliances), loyalty-based (rewards consistent and/or increasing purchases), innovation driven (tech companies), open, inbound (positioned near potential customers). Answers showed that the respondents have a basic knowledge about the different business model types. The proportion of respondents with knowledge of the models listed was fairly even at 12%+/-2%, so these models are roughly equally well known, but the average number of models known per respondent is 4.6 out of the 7 typical models listed, i.e. 68% average knowledge of the models.

Third question was related to the conscious selection between business models: “Before choosing your own start-up business model, how many business models did you analyse in detail?” Most of the respondents (38%) evaluated 2-3 models, 21% evaluated minimum four, 9% checked one model and 32% of the respondents did not checked any models. As a summary, when choosing a model, 59% of respondents considered and analysed 2-4 models, 32% did not consider any.

Fourth question was related to the business model as an important element of the Business (Fig. 2.). The existence of a business model were considered important, 20% of respondents consider that without business model one cannot function well, 54% consider a well-chosen business model is important and useful tool of development and 23% consider it to be important but not indispensable. Only 3% did not considered business models as an important element of operation.

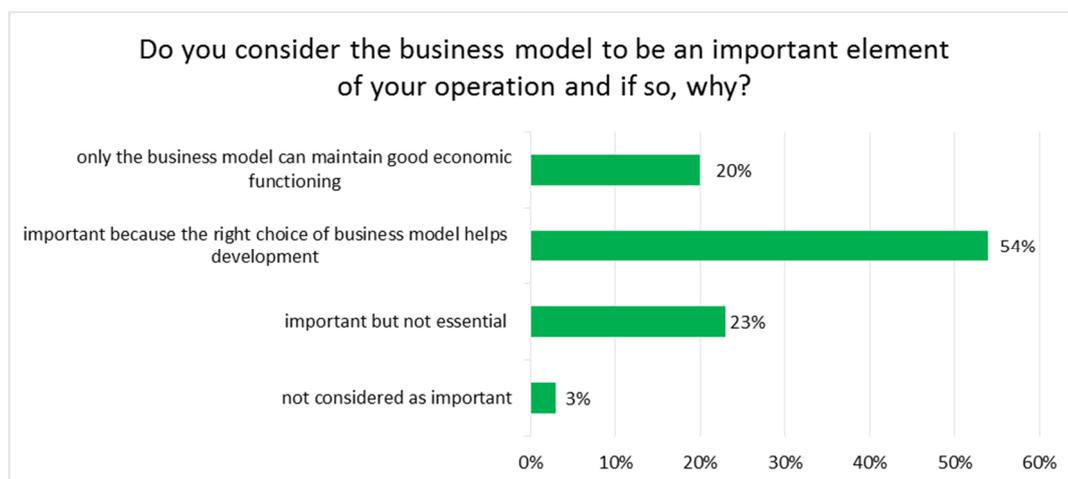


Figure 2. Respondents' opinion about the importance of business model (%)

Source: own research

For the next question, “What are the main criteria that led you to choose your current business model?” 31-31% of the respondents said, “it fits well to my business” and “this is the traditional business model of the industry I work”, 26% chose the answer “it provides the highest revenue and profit”, while 11% answered that “it poses the minimum risk to my business”.

Respondents were also asked about what they think about the role of their business model. According to 49%, it is “an opportunity to develop my business”, 45% it is a “consciously adopted, useful business structure”, and according to 3-3% of the respondents it is just “an external requirement” or “a necessary but limiting constraint”.

For the question “What do you consider as the most important feature of a business model?” the answers are given in Fig. 3.

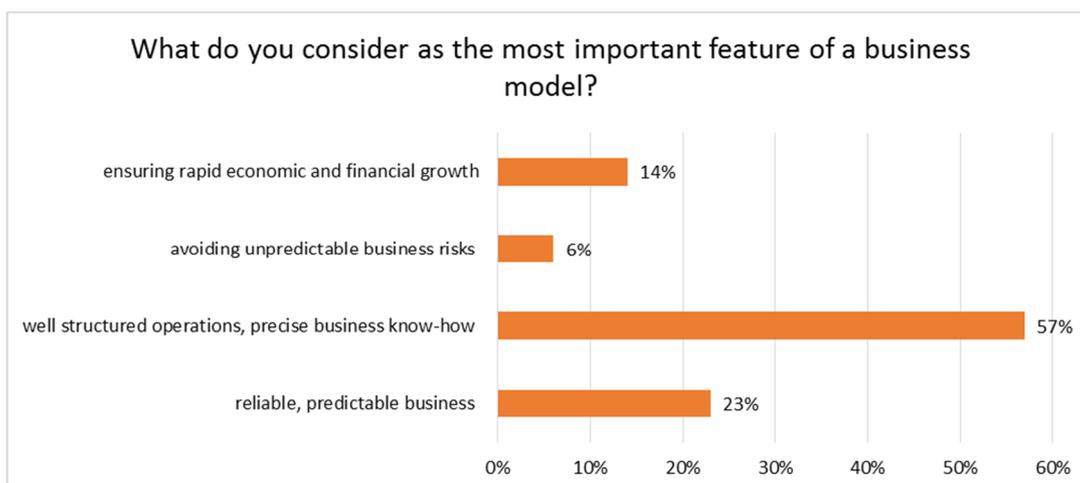


Figure 3. Respondents' opinion about most important features of business models (%)

Source: own research

Two questions were related to the adaptability of the business models. For the question “To what extent do you think your business fits in with known and common business models?” most of the answers (68%) showed positive opinion. 51% of the respondents answered that the own business fits fairly and 17% indicated that it fits perfectly to the business to existing business models. 23% of the respondents told that it does not or hardly fits and 9% answered that they do not know any business models that fit to the existing business.

For the question “In which areas do you think business models can be considered sufficiently reliable?” respondents could choose more answers. The answers for this question are summarized by Fig. 4.

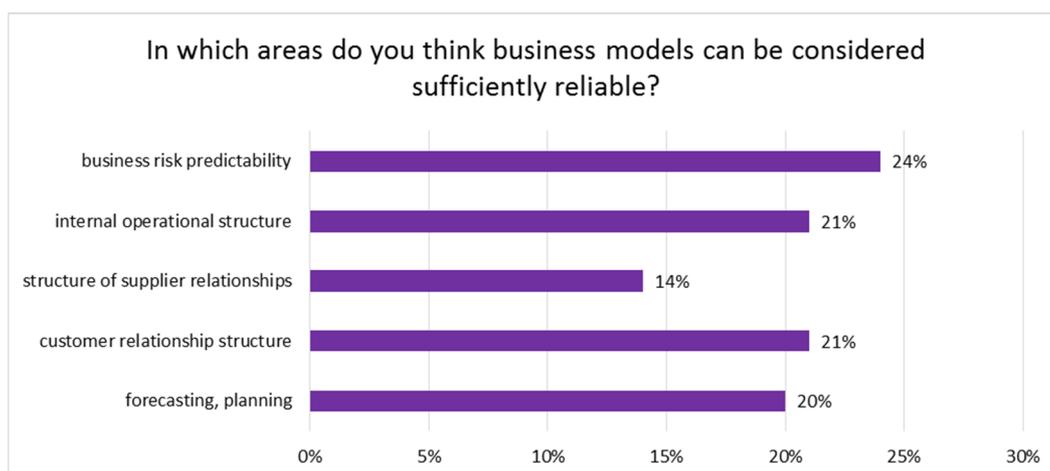


Figure 4. Respondents' opinion about most important areas of business model use (%)

Source: own research

The results show that business models may give help in risk predictability, forecasting and planning, internal structure planning and customer relationship structure, which are among the main elements of the well-known business model creating techniques.

As the most important features of start-up models, respondents mentioned revenue and profit growth (21%), good structure (15%) and model flexibility (15%). One of the main features of start-up enterprises is the creative and innovative thinking, which is reflected well in the answers regarding the business model crating abilities: 54% of start-ups use a known model, and a remarkable proportion (37%) have created their own model and 9% does not use any models.

Conclusions

As a summary, our research focused on the knowledge and utilization of business models in innovation-driven (start-up) companies. The results revealed that business models are widely used in the examined sample, entrepreneurs know the existing models and most of them are able to make some changes in order to a better adaptation and more successful utilization. Business models may help in organizing the processes and operation of the firms and help the further development. Business models are valuable tools for forecasting and predicting business processes in the changing environment, and they also support the planning of customer and supplier relationship processes, which are the most important pillars of business performance.

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