CHALMERS
UNIVERSITY OF TECHNOLOGY

Profit vs user growth?

A study of early strategies in start-ups, founder’s motivation and strategy implementation.

Master’s Thesis in International Project Management
2019

ALFONS ANDREASSON
ANTOINE MANÈS

Department of Technology Management and Economics
Division of Entrepreneurship and Strategy
CHALMERS UNIVERSITY OF TECHNOLOGY
Gothenburg, Sweden 2019
Report No. E 2018:120

MASTER’S THESIS E 2018:120

Profit vs user growth? A study of early strategies in start-ups, founder’s motivation and strategy implementation

ALFONS ANDREASSON
ANTOINE MANÈS

Tutor & Examiner, Chalmers: Sören Sjölander

Department of Technology Management and Economics
Division of Entrepreneurship and Strategy

CHALMERS UNIVERSITY OF TECHNOLOGY
Gothenburg, Sweden 2018

Profit vs user growth?
A study of early strategies in start-ups, founder’s motivation and strategy implementation

ALFONS ANDREASSON

ANTOINE MANÈS

Master’s Thesis E 2018:120

Department of Technology Management and Economics
Division of Entrepreneurship and Strategy
Chalmers University of Technology
SE-412 96 Gothenburg, Sweden
Telephone: + 46 (0)31-772 1000

Chalmers digitaltryck
Gothenburg, Sweden 2018

Abstract

The concepts of entrepreneurship and start-ups have gained tremendously in popularity over the past decades. The start-up activity around the globe has increased from 55 billion USD in 2013 to 148 billion USD in 2015 (GSER, 2018). The number of on-campus entrepreneurship programs has increased from 180 in 2000 to 1990 in 2014 in the US alone (The Infographic.ly Team, 2017). Global venture capital investments in start-ups hit a decade high in 2017, with over $140 billion invested. The total value creation of the global start-up economy from 2015 to 2017 reached $2.3 trillion—a 25.6% increase from the 2014 to 2016 period (StartupGenome, 2018). Since the early 1980's a large number of researchers investigated the growth phenomenon of start-ups (Lewis, (1983), Woo, (1989), Davila, (2003)). But the purpose of this master thesis is to analyze the reasons motivating entrepreneurs to follow a particular growth strategy. Who and what define the strategic course of a start-up? What influences their choice? What is the main focus of the strategies? Is it profitability or user growth? How is the strategic focus implemented? The answers to these questions are key to understand the start-up phenomenon yet the authors were unable to find sufficient academic research on the topic.

The present thesis aims to explore and analyze early strategic focus in start-ups. The research will be phenomenon-driven. A first theoretical part will identify the factors responsible for growth in a start-up. Then, the authors will conduct both an inductive and a deductive qualitative analysis of case studies. Meaning the case studies will be used to try to determine both general theories and confirm the ones identified in the theoretical part. The collected data will come from interviews with founders of start-ups, investors who invested in those and documents provided by the founders (Websites, Annual Reports, Brochures, etc.). The data will be used to write case studies for each start-up. The case studies will describe the phenomenon of several start-ups' strategic focus, their causes and effects. This phenomenon will be first analyzed individually in each case, and then the authors will try to identify a pattern between the different cases. In order to have a better understanding of the start-up ecosystem, the authors started their own company and participated in many activities of founders and investors.

The present research came to the conclusion that the individual motivations of either investors or founders determine a strategy. The main source of motivation for pursuing a particular growth strategy is to increase the value of the start-up in anticipation of the next funding stage to receive a maximum investment for a minimum amount of shares. The implementations of the strategies were chosen depending on the success-matrix of the start-up and the need, ability and opportunity of the start-ups, as perceived by investors and founders, to pursue them. Finally, two kinds of founders were identified those with market origins and those with product origins. The two groups have a different bond with the "identity" of the start-up

Acknowledgements

First of all, we would like to thank our mentor, Sören Sjölander, who has given us an extremely good insight into the topic and guidance throughout the process of writing this thesis. Sören made this thesis possible in many ways. We would also like to thank the people who took the time to participate to our study: Adam, Sofie, Robin, Nanna, Marlene, Doron, David, Ola, Mathilde, Sara, James, Tobias, Matus, Johan, Andreas, John and Emanuel.

Table of Contents

1. Introduction

A start-up is, according to Chevigny (2015), a fast-growing company with an innovative product that has the potential to scale up rapidly. This potential for growth can be related to financial, consumer or resource growth. “In any tech start up there is a healthy tension between profits and growth.” says Mark Suster, start-up founder and VC (Venture Capitalist). “To grow faster, businesses need resources today to fund growth that may not come for six months to a year.” (Suster, 2015). Growth comes with some risk, and there is often the necessity to sell equity in order to raise the money. A profitable business makes the business owners masters of their own destiny. It gives them sustainability and leverage over investors, but it could also handicap their growth.

But how to chose between the two options? What are the reasons for a start-up to focus on profitability or user growth? Do the founders define a strategic course that leads to a series of actions resulting in rapid user growth or profitability? Or does it mostly depend on the environment in which they evolve and on their product?

The purpose of this master thesis will be to analyse, through a literature review and several case studies, the process of early strategy formulation, from the analysis to the decision and the actions, that lead a start-up to focus on user growth or profitability. This study will allow defining the reasons that led a start-up to choose one option over the other while exploring the relationship between strategic choices and operational reality.

The authors found that there is a substantial amount of newspaper articles, blogs or books written on the specific topic of the profit or user growth strategic choice. Surprisingly, the number of academics’ papers on this strategic duality is very limited. While the authors thought about conducting a quantitative review of start-up strategy, they soon realized that a description of the existing phenomena was more needed from an academic perspective.

Therefore, the present thesis will go through a literature review to center the research on the factors responsible for inducing growth in start-ups. Those factors will be explored in the empirical study from which will be drawn a general theory. The research and analysis methodologies will be presented in the "Method" section.

2. Theory

The present section aims to define a start-up and the factors responsible for its growth. This section will reveal several research questions that will be highlighted at the end of each part and will be explored in the empirical study.

2.1. Definition Of A Start-up

Start-ups are often associated with the multitude of success stories from the Silicon Valley. But the giants Google or Facebook, are they still start-ups? And how to differentiate them from other companies?

According to Lebret (2016), "An SME (Small and Medium-sized Enterprise) is not necessarily a start-up, and a start-up does not stay long as an SME, if it succeeds". For this reason Google, Apple, or Free are no longer start-ups. At Google, for example, the transition was marked by the arrival of Eric Schmidt as CEO in 2001, says Patrick Fridenson (Chevigny, 2015): "he standardized the company, establishing clear frameworks, including the organization chart." On the contrary, Uber or Airbnb can still claim this name, "these companies are already giants, but their business model is not yet assured. Similarly, Twitter can also be classified in this category.

“A start-up is a company working to solve a problem where the solution is not obvious, and success is not guaranteed”, says Neil Blumenthal, co-founder and co-CEO of Warby Parker. “Start-up is a state of mind”, says Adora Cheung, co-founder and CEO of Homejoy, one of the Hottest U.S. Start-ups of 2013. “It is when people join your company and are still making the explicit decision to forgo stability in exchange for the promise of tremendous growth and the excitement of making immediate impact.”

The American Heritage Dictionary suggests it is a business or undertaking that has recently begun operation. According to this last definition to be a start-up, you must have started recently. Yet, from all of the companies that are launched every year, only a small fraction falls into this category. For example, the new local bakery would not be called a start-up. So, what are the criteria to designate a start-up?

For Patrick Fridenson, (Chevigny, 2015) it is neither age, nor size, nor sector of activity, that make a business a start-up, but the following three conditions:

- The prospect of strong growth,
- The use of new technology,
- The need for massive funding, by fund-raising. It is with the appearance of the first venture capital companies in 1946 that the concept of a start-up began to spread.

It is impossible to talk about start-ups without mentioning the climate of high uncertainty: a start-up is a pioneering company. "It is linked to a notion of exploration," says Patrick Fridenson (Chevigny, 2015), "and develops an activity in a new market, in which the risk is very difficult to evaluate."

This means that at the end of its research phase, the start-up ceases to be a start-up. "It’s only a temporary state of the business," explains Patrick Fridenson. Either because the activity fails, and the start-up disappears, either because it succeeds, and in this case, a large group absorbs it, or it becomes itself a business with a traditional framework and a model established economy.

Therefore, a start-up could be defined as a new innovative company, generally in search of important investment fund-raising, with high potential for economic growth, and financial speculation on its future value. Its phase of research and development of innovative product, test of idea, validation of technology, or economic model, is more or less long, before its commercial phase. For a start-up, the rate of risk of failure is much higher than any other companies, because of its innovative nature, its small size and its lack of visibility.

The very early life of start-up focuses mostly on developing a product and finding a market for it. At this point, it could be argued that no other strategy than the one of finding market fit is established. After this phase of research, start-ups explore different growth strategies as they try to figure out their economic models. It is during this second phase that start-ups start to grow tremendously and that the question of pursuing either user growth or profitability arises. But what is responsible for growth, the main objective, in a start-up? Also, the phase when start-ups formulate growth strategies needs to be identify. Even if it appears that a strategic plan is established during a second phase, this hypothesis needs to be confirmed.

RQ1: At what stage do start-ups start formulating growth strategies?

2.2. What Is Responsible For Growth?

Academic literature highlights the central role of managers and their motivations to better understand the growth trajectories of start-ups (Boissin et al., 2009; Cliff, 1998).

Most research classifies the success factors of start-ups into three categories: the entrepreneur, the firm, and the economic environment. These categories allow differentiating between successful and unsuccessful firms. However, explaining the differences in performance remains a difficult task, mainly because these three categories are interrelated: the success of a business is the result of varied combinations of individual, organizational and environmental factors. As a result, many variables are used to produce predictive models of survival, growth, and performance, but the results of this research remain heterogeneous and contradictory.

Thus, some authors compare and attempt to assess the relative impact of each of these three factors. They show that individual attitudes and characteristics have an effect on success that is twice as high as that of firm characteristics, the geographical environment being assumed to have a minor effect (Solmosy E., 2000). But other authors show the importance of the local context: regional conditions and opportunities for entrepreneurial activities, competence, competition and interactive relations are considered as the main factors for the creation and development of new start-ups (Littunen, et al., 1998). For these authors, different regional conditions are not only reflected in differences in start-up activity levels, but also in differences in the structural characteristics of new firms. The environment therefore has a potentially important impact on success (Tödtling F., 2003).

Another important factor in the success of start-ups is the organizational structure of the start-up. A research by Roberts (1991) showed that the chance of success for a start-up grows proportionally to the number of founders. Indeed, as the book of Ries (2011) "The lean start-up", " the "bible" of every entrepreneur, emphasizes, feedback is a key factor for success. And a larger group of founders facilitate the integration of the feedback and its "sense-making" (Grimes, 2018). A larger group of founders are also more likely to be fact-orientated and possess a higher thinking power (Roberts, 1991).

However, in the present research, only the individual and organizational factors will be considered to explain the success of start-ups, as they are the ones with the most important impact.

2.2.1. The Founder’s Personality And Its Impact On Growth

Many variables are used to explain the impact of the entrepreneur’s characteristics and profile on the survival and growth of their business. These factors can be classified into three groups: the motivation of the founder (his "entrepreneurial orientation"), his general human capital and his professional experience. The success of new firms is, in many studies, linked primarily to the entrepreneur’s own personality (R Bellu, 1993). The relationship between motivation and the success of new firms has thus been widely demonstrated in the literature: those who are successful are those who believe it most intensely and the longest (Per Davidsson, Delmar, and Wiklund, 2006).

As stated before, three types of growth factors exist (Janssen, 2011): factors related to the economic environment, the organizational characteristics of the start-up and the personal characteristics of the leader. However, the place of the latter and its motivations remains central in explaining the growth trajectories of start-ups (Cliff, 1998). Some leaders seem to be reluctant to grow to begin with mostly because it is synonymous with loss of power and independence (Vellin, 2013). Indeed, start-ups have high resource needs, either financial or intellectual resources (Hayat, 2012). However, they often have, especially in their early years, very limited internal resources. To grow, they need to surround themselves with many stakeholders who can provide them with these resources but who can also limit their power and influence their decisions (Charreaux, 1997). Thus, "most companies do not grow beyond a certain size, which some call" comfort stage ", this a stage at which sales are large enough to ensure the survival of the company business, a satisfactory standard of living for the manager and his family and a certain return on investment "(Janssen, 2011). Growth is the result of a demanding choice that all leaders do not seem to be making.

Growth is a multifactorial phenomenon (Lasch, Le Roy, and Yami, 2005) that can be studied through global explanatory models in which the leader and his motivations play a central role. Three types of factors influence the growth of a company: macroeconomic, microeconomic and personal characteristics of the leader. Some factors like support by an incubator or the level of training of the leader clearly has a positive influence while the influence of other factors is more uncertain (such as the age of the leader or obtaining public aid). The literature shows that it is important to simultaneously consider the influence of all these factors on growth rather than to study their impact separately (Daval, Deschamps, and Geindre, 2002). It is necessary to have "an integrative reading of the different categories of factors, considering that it is their interaction which grounds the growth" (Chanut-Guieu, Tannery, et al., 2009).

PEL Davidsson (1991) proposes a global model of understanding business growth (Figure 2.1), which has since been repeated and supplemented by several studies (Per Davidsson, Delmar, and Wiklund, 2006).

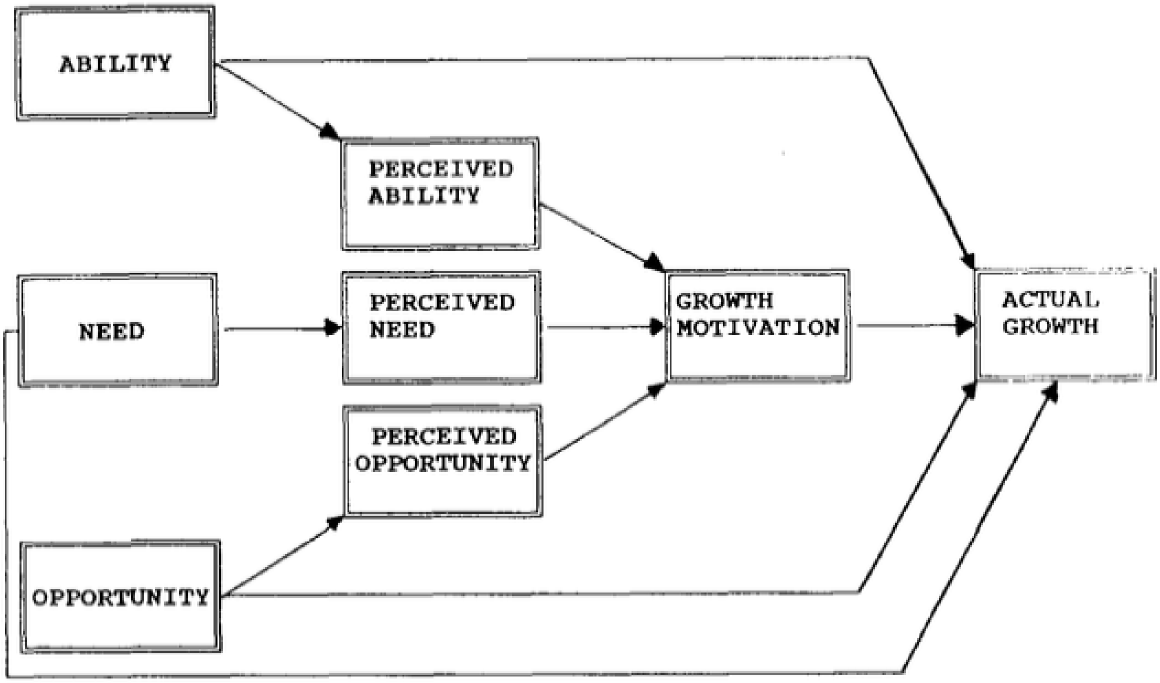

Figure 2.1: A model of small firm growth factors (Davidsson, 1991)

His work is based in particular on the theory of expectations (Vroom, 1964) and places the notion of expected consequences of growth at the heart of the reflection. The leader's desire to grow his business would therefore be related to the consequences he attributes to growth. According to (Davidsson, 1991), growth can be explained by the personal characteristics of the leader, but the relationship is indirect, and motivation plays a mediating role between these two variables.

The leader's motivation for growth is determined by his abilities, needs, and the op-opportunities he perceives as presenting themselves to his company in terms of growth. Motivation itself is therefore not only determined by objective elements but also by the leader's perceptions and representations, particularly in terms of the expected consequences of growth. The notion of opportunity is very close to the growth factors related to the characteristics of the economic environment in which the company is developing. Indeed, it can be characterized by the size of the market and its growth rate, the barriers of entry that can be observed, the level of competition or the geographical area of the company. When Davidsson (1991) speaks of the need to grow, he refers to the characteristics of the firm itself through its age and size, but also to the age of the leader. Finally, when he proposes to be interested in the ability of the leader, it is according to his training and his experience. Thus, this model makes it possible to relate the three types of growth factors mentioned above. Therefore, growth is not solely due to objective criteria but depends on the perception of the leader.

The study of growth factors thus confirms the manager's central role in understanding the growth trajectories of his company, despite the need to take into account other variables related to the characteristics of the company and its environment. Therefore, "it is essential to emphasize that the profile of the leader, the particularities in his personality, is the essence of what will be the business strategy"(Jaouen, 2008).

While the academic literature manages to identify that the motivation of the founder will define the growth trajectory of the start-up it does not analyse the reasons behind this motivation. This research gap justifies the second research question:

RQ2: What are the reasons motivating the founder toward a particular growth strategy?

2.2.2. The Governance And Its Impact On Growth

In start-ups, the notion of governance is essential. The managers of these companies have different profiles and specific attitudes towards growth, which leads to the establishment of different governance structures. Billard, Boissin, and Berangere Deschamps (2003) explains "some leaders, including ambitious adventurers or maximisers, are entrepreneurs close to the Anglo-Saxon culture developing management around the objectives of the shareholder. [...] At the other extreme, the satisfied technician rejects the objectives of the shareholder and refers to those of the customer. Admitting control over his management, he nevertheless prefers spontaneous mechanisms (reputation with customers and suppliers) over intentional mechanisms (actions of the board of directors) ".

Beyond the profile of the leader himself, there is a strong relationship between growth and the governance structure set up within the company (Mayer, 2004). In these companies, growth is therefore often accompanied by a rise in power of different stakeholders, including capital investors (Depret, Hamdouch, et al., 2004). The notion of governance, defined as the organizational mechanisms that have the effect of delimiting the powers and influencing the decisions of the leaders, governs their conduct. Governance allows better understanding these relationships and thus better understanding the growth trajectories of start-ups.
There are two main views of governance that echo changes in the firm’s theories (Wirtz, 2011). Schematically, the governance of a start-up can be located along a continuum: from a purely coercive vision centered on the notion of control to a purely cognitive vision centered on the contribution of resources.

In the coercive vision based on the firm’s contractual theories and in particular the agency theory, the governance structure of a company is only for the shareholders a means of control over the actions of opportunist leaders (Talaulicar, Grundei, and Werder, 2005). The theory of agency and incentives was largely developed during the 1970s, thanks to the work of Jensen and Meckling (1976)). They are interested in the agency relationship that is established between a principal (Shareholders) and an agent (Founders). This theory covers in fact any "contractual" (including implicit) relationship between two parties, such that the situation of one depends on an action on the other: the acting party is the agent; the affected party is the principal. The authors of this coercive trend "emphasize the disciplinary role of the governance system, whose main function would be to manage conflicts of interest in organizations marked by a strong separation between control and ownership" (Wirtz et al., 2008).

In a purely coercive vision of governance, the function of governance is to limit the manager’s discretionary space. This is all the more important in start-ups where "innovation is inherently associated with unpredictable contingencies" (Hege, 2001) and where the presence of venture capitalists or business angels is often synonymous with major agency conflicts resulting in situations such as the continuation bias of managers or the difficulty of assessing the value of a future project (Pouget and Stephany, 2002). The venture capitalists and business angels, when they have entered a company, aim to get out of it in the short or medium term by realizing the maximum added value. For this, they will tend to favour an exit strategy and even, if they can, favour an IPO. On the contrary, the managers, who often wish to remain independent, prefer to do everything to ensure the survival of the company and especially their maintenance at its head. Thus, they will tend to favour by all means the continuation of the company. (Hege, 2001).

The cognitive vision of governance, Resource theory, emerged in the second half of the 20th century with E. Penrose and E. T. Penrose (1959)’s book The Theory of the Growth of the Firm. It invites to go beyond the traditional economic approach by introducing the idea of "service" rendered by a resource. Beyond the traditional factors of production such as capital, labour or land, it focuses on more intangible elements, depending on the ability of managers to extract value from a set of resources. Wernerfelt (1984) continues the thinking by seeking to explain the performance differentials between companies operating in the same context. He puts forward the notion of "resource barrier". Then it was Barney (1991) that formalized the theory of resources as it is often exposed today. Resources that are likely to create a sustainable competitive advantage must meet four criteria: to be valuable, rare, difficult to imitate, and non-substitutable.

The proponents of a traditional economic approach, particularly the work of Michael Porter, have developed the theory of resources in response to the proposed developments in business strategy. In the 1980s, he emphasized the importance of the structure of a sector and the positioning of companies in this sector (their market power) to explain performance differentials. The theory of resources invites instead to shine the spotlight on the company, to return to its organization, to understand what may be likely to create a difference over time. It does not deny the interest of a fine analysis of the sectorial environment of a company, but it is more interested in the internal springs of the processes of creation and appropriation of value. The theory of resources reintroduces in this a certain strategic creativity.

Considering the theory of resource in the analysis of governance allows to widen the vision and the role of governance and thus to present the cognitive vision of the governance. Here, far from only controlling and monitoring the actions of leaders as advocated by the contractual theories of the firm, the governance mechanisms will rather have the role of supporting the leader by providing him with the resources and skills necessary for the growth of his company (Depret, Hamdouch, et al., 2004).

In order to simultaneously take into account these two visions of governance, Wirtz (2011) proposes a theoretical meta-model of governance (Figure 2.2).

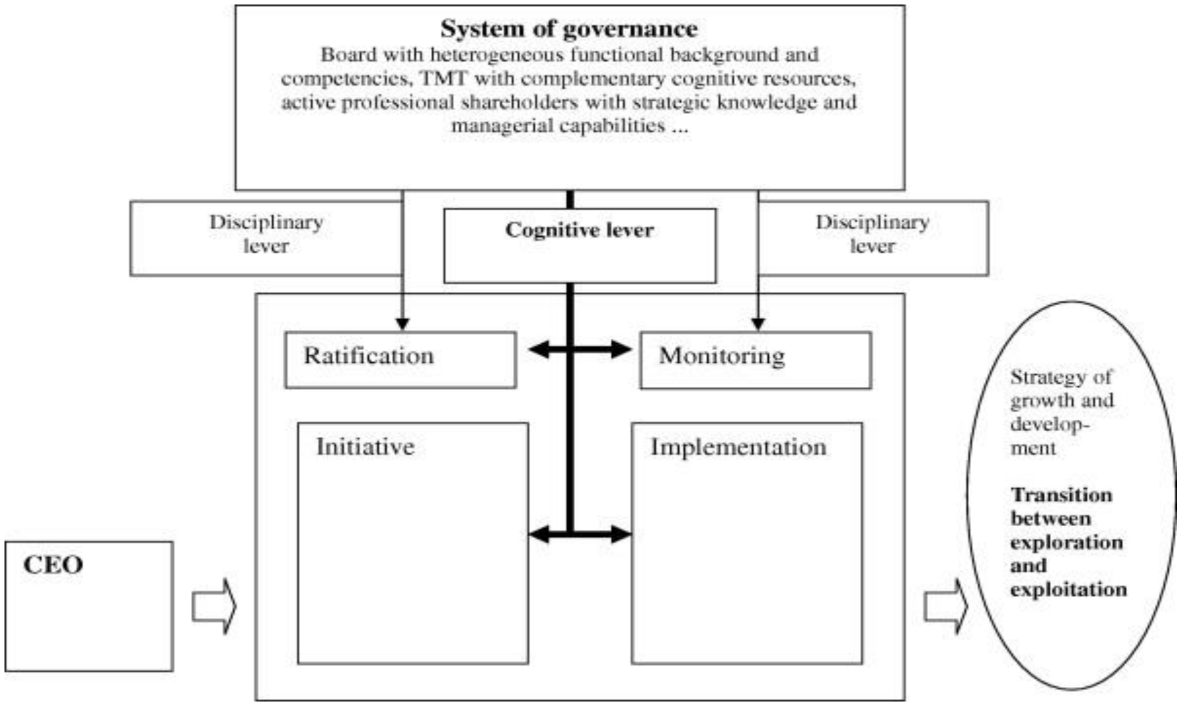

Figure 2.2: Meta-model of governance (Wirtz, 2011)

This figure describes the specific situation at work in start-ups. "Based on the characteristics of the leader who are the basis of his strategic vision, the model involves the system of governance and its various levels (coercive and cognitive) to shape the latitude and influence of strategic choices" (Charreaux, 1997). In this model, the growth strategy is set up by the manager but is also influenced by the interactions between the manager and the governance mechanisms at work in the company.

Tarillon (2017), who based her research on Wirtz's model, identifies four profiles of leaders on the basis of their perception of governance and the expected consequences of growth and, thus, the motivation for growth. The first class is relying the most on shareholders decision and the class 4 the least.

Class 1: The leaders of the first class have a predominantly cognitive view of governance. According to them, the shareholders mainly have an enabling role. At first, they expect the latter to advise them both in determining strategic objectives and also in operational actions that could be implemented to achieve these objectives. Shareholders must also bring their expertise to the company, whether in economic, managerial, technical or legal terms. They must then make the company benefit from their network and participate in the improvement of its image. These leaders really envision the shareholders as "coaches" who must provide support to help them manage their company.
Motivation for growth: strong growth will enable founders to gain independence from their various stakeholders (customers, suppliers, shareholders or banks).

Class 2: Those are leaders who believe that shareholders must play an important role in their business and be present in many areas. Their role remains rather coercive without preventing a cognitive vision. Shareholders play a leading role in the organization and management of the company. In particular, they help the manager to search for and appoint directors and key members of the management team. They control both the strategic orientations of the company but also the operational actions implemented to achieve the objectives set. In parallel, the shareholders also have an enabling role since they offer their expertise and their network to support the development of the

company. To conclude, the principals mainly give the shareholders an "internal" managerial coercive role within this class.
Motivation for growth: growth can have many virtues. It is a way of consolidating the company and maintaining a high quality of products and services. It assists the leader by allowing him to focus on his favourite tasks and to maintain or improve control over the internal workings of the company.

Class 3: The leaders of this third class have a particularly coercive representation of governance around performance and consider that the role of shareholders is not to provide their expertise, their network or coach the leader. According to them, the shareholders must only control the performance of the company as well as their own performance. It is here a rather Anglo-Saxon vision of governance in which the shareholders have the sole role of ensuring that the leaders act in their own interest. It is therefore possible to say that the leaders of this third class grant an "external" financial coercive role to the shareholders.
Motivation for growth: these leaders generally have a rather mixed vision of growth. They expect both positive and negative consequences. They anticipate that a strong growth would allow them to consolidate their company in the future and favour its durability. But, they also think that this growth would be negative for their own influence within the company. They would lose control of the company and no longer be able to focus on their favourite tasks.

Class 4: The leaders of this class grant the shareholders only a negligible role in the management of their business. For them, they must not play a cognitive role, nor play a role of leadership and management, let alone have any coercive power. These managers are very autonomous and do not want to be influenced by potential shareholders in order not to lose power within their company, either by delegating the recruitment of key people or by accepting an interference in strategic decision-making.
Motivation for growth: these leaders have a negative view of growth. They fear that the growth will hinder their ability to survive a crisis and that the company's ability to produce quality products or services will decline. In addition, they consider that their amount of work would tend to increase in case of growth without necessarily being synonymous with an increase in income.

The determination of these profiles demonstrates the relevance of the vision of Davidsson (1991) that leaders may have different perception of growth in terms of expected consequences. Indeed, it shows that leaders can see growth as:

- A means of independence,
- A way to consolidate their business,
- A way to establish their personal position
- A factor of personal commitment.

By including the notion of governance in the analysis of growth, the literature allows to identify different motivations behind the desire for growth. Yet, the extent in which this motivation impacts a particular growth strategy is still unclear. This new research gap leads to the third research question:

RQ3: Does the motivation, behind the desire for growth, of Founders, impacts the choice for a particular growth strategy?

2.3. Conclusion

The theory part identified that founders are motivated to pursue growth by looking at the expected consequences of it. Founders have a different perception of the consequences of growth. It can be:

- A means of independence,
- A way to consolidate their business,
- A way to establish their personal position
- A factor of personal commitment.

While analysing the reason for establishing a strategy pursuing growth, the existing academic literature does not seem to address the reasons for choosing a particular growth strategy (User growth or profitability). Yet this analysis is of key importance to help past, present and future entrepreneurs and investors implementing the best strategy for their start-ups.

The apparent lack of existing theory in the academic literature and the importance of the topic unexplored in this research gap encourages to conduct a phenomenon driven research in order to create a theory based on the analysis of case studies.

The research will have the objective of answering the following three research questions:

- **RQ1: At what stage do start-ups start formulating growth strategies?**
- **RQ2: What are the reasons motivating the founder toward a particular growth strategy?**
- **RQ3: Does the motivation, behind the desire for growth, of Founders, impacts the choice for a particular growth strategy?**

The analysis of the cases will not be limited by this three research questions and could explore other phenomena that would appear in the empirical study.

3. Method

3.1. Introduction

The purpose of the present thesis is to investigate the theories and ideas influencing the growth trajectory of start-ups. The academic review allowed identifying the founders and investors' personalities and motivations as the principal factors responsible for growth in start-up. But the authors of this thesis were unable to find sufficient academic research on the causes that nourished the founders and investors motivation to follow a certain strategy.

During their research the authors of this thesis found a substantial number of books, articles or blogs of successful entrepreneurs and investors on this topic but none was supported by an academic approach but rather by theories build on experiences or visions. At the very beginning of the present research the authors wanted to test existing theories using a quantitative approach or a deductive qualitative approach. But it does not seem to b theory to test. Yet understanding the reasons behind a growth strategy is of key importance for present and future entrepreneurs and investors. Based on the work of Eisenhardt (2007), this research aims to analyse the growth strategy of several start-ups and identify certain patterns between them.

3.2. An Inductive Approach

Yin et al. (1984) present the case study as "as an empirical inquiry that investigates a contemporary phenomenon within its real-life context; when the boundaries between phenomenon and context are not clearly evident; and in which multiple sources of evidence are used. ". Boutin, Goyette, and Lessard-Hébert (1990), explains that this is a mode of investigation particularly open to the characteristics of the real world.

Thus, the case study is "a particular technique of collecting, formatting and processing information that seeks to account for the evolving and complex nature of phenomena concerning a social system with its own dynamics" (Collerette, 1996). This is one of the fundamental characteristics of this technique when wanting to account for a phenomenon that occurs in a changing context. The case study then seeks to reveal the trajectory followed by the studied phenomena in order to identify their particularities. It is another of its characteristics to try to describe the complexity of a situation in order to illuminate the multiple and dynamic links that unite the various elements.

The case studies, therefore, will consist of reporting a real situation, taken in context, and analysing it to discover how the growth strategies manifest themselves and evolve. One of the interests of the case study is then to provide a situation where it will be possible to observe the interplay of a large number of factors interacting together, thereby accounting for the complexity and richness of situations involving human interactions, and to reflect the meanings attributed to them by the actors concerned.

Yin et al. (1984) explains that the case study can be used for both quantitative and qualitative research. When used in a context of quantitative research, one seeks to constitute a sample of several cases, becoming many subjects that will be compared to show the constants and the differences between them. The case study is then primarily a strategy for gathering and organizing raw data, with the analysis focusing on aggregated data. In these situations, the validity criteria that are applied are those of the positivist tradition (rooted in mathematics), which can make things difficult because the control of the various factors acting on the situations may be impossible, the validity of the sample can be put in doubt easily and the possibilities of processing statistical data can be limited.

It is probably in the practice of qualitative research that one can best take advantage of the properties of the case study. "The central question in a qualitative research is the meaning" (Van de Ven and Rogers, 1988). Qualitative methods seek to grasp real phenomena experienced in situations, with the intention of formulating theories or models that make it possible to interpret (capture the meaning of phenomena) and possibly predict their course. The inductive approach consists of working from observations drawn from one or more situations to gradually formalize the data obtained and evolve towards a theory. It seeks to bring knowledge out of reality. It is used mainly in situations where mucking work on a given subject has not already been done, or for cases where a first modelling effort has not already been done.

Thus, due to the lack of existing theory on the growth strategies of start-ups, it is necessary to use an inductive qualitative approach to improve the understanding of the phenomenon. A key aspect of the present study will be guaranteeing the full and unbiased understanding of the analysed phenomena.

3.3. Data Collection

In order to have a complete understanding of the complex phenomenon of a strategic decision, the authors chose to collect data using face-to-face interviews and the study of official documents and especially "personal documents" (this term refers to "materials" in which people reveal in their own language their point of view on their whole life, or part of their life, or someone another aspect of themselves: personal diaries, letters, autobiographies).

The main data was collected during interviews with both founders and investors of the same start-ups and the observations drawn from the observations were supported by non-academic literature written by investors and entrepreneurs.

During the period of study (4 months) the researchers also participated in several events where they met and conversed with several investors and entrepreneurs:

- Networking sessions for entrepreneurs,
- Conferences by investors,
- Afterworks of incubators and co-working spaces,
- Pitching session with investment funds.

Even though data was not systematically collected from those conversations, it helped the founders gaining a certain legitimacy and recognition from the founders by sharing a common experience, thus guarantying a better emotional an intellectual access to the subjects of the study. Also, those encounters allowed the researchers to familiarize themselves with some of the key concepts of start-up creation while confronting their early observations with actors of the start-up environment.

The main source of information and the base for building observations on early growth strategy of start-ups came from the interviews.

To have access to the subjects of the investigations, the authors used two approaches:

- Go through the statutory power to be admitted into the institution. Also called the "Gatekeepers". The supervisor of this research, Sören Sjölander was a great help and allowed the authors access to both investors and founders. Some investors then gave access to other founders.
- Go through friends and family Hoffman (1980).

The interview is a device within which an exchange will take place. It will not be, as for the conversation, a spontaneous exchange dictated by the circumstances; the exchange will take place between two people whose roles will be more marked. There will be the one who conducts the interview and the one who is invited to answer it.

Palmer (1928) presents the technique of the interview in the first sociological ethnographic textbook published in Chicago: "the informal interview may seem to contain no kind of structuring, but in reality, the researcher must elaborate the frame within which he conducts his interview, the unstructured interview is flexible, but it is controlled". Palmer adds on the necessity to retain the words of the informants reporting experiences and attitudes related to the research. The researcher must help the informant to speak freely and naturally about his experiences: "a few comments and remarks and some questions asked from time to time to keep the subject around the main theme, to specify a detail to such a point of a story, or stimulate the conversation when things are dragging. Here are some of the ways that the researchers carries out the first phase of the work" (Palmer, 1928).

The validity of the empirical research, in terms of interviews quality with investors and founders, is strongly relaying on the questioner. If the questions asked are conductive or misinterpreted, the research might be no longer viable. In order to create a questioner while avoiding the risk of leading the interviewees to lie or, as Conway (2017) will put it, to give "alternative facts" for the sake of the thesis, the mom-test by Fitzpatrick (2013) was used for the creation of the questioner.

The interviews had two parts. The first aimed to develop a life story (a sociological autobiography). Here, the researchers wanted to capture experiences that have significantly impacted the start-ups life and the "definition" of these experiences by the person himself. The second part was to gather knowledge of events and activities that are not directly observable. Interviewees were asked to describe what happened and how others perceived it, specifically around particular strategic decision that had an important impact on the growth trajectory of the start-ups. The interviews framework is available in the appendix.

Eisenhardt (2007) recommends that the informants must be selected in order to limit bias: A key approach is using numerous and highly knowledgeable informants who view the focal phenomenon from diverse perspectives. By interviewing both investors and founders, the authors limited the risk of having a single perspective represented. The phenomenon of a single strategic decision was, in some cases, studied from the perspective of both the investors and the founders.

Also, the interviews were conducted in an environment chosen by the interviewees often in their offices.

To select the start-ups, the authors selected start-ups that were sufficiently advanced in their development that they either made or planning to make a strategic plan.

This paper’s collected data will be presented in separate cases in order to find a replicated logic. Which means, each case is emancipated from each other in an analytical way and each case stands on its own, even if they are all part of the same study. (Eisenhardt, 2007). The conclusion of each case study uses an interpretivist approach (the researcher intends to make sense from the interpretation that he proposes based on the meanings of the world communicated by the participants) to categorize the story told in the case study in three steps of the same process:

- Cause: What led the investors or the founders to take a decision towards a particular a growth strategy?
- Phenomenon: What is the focus of the strategy?
- Effect: What changed and what were/are/will be the consequences?

Finally, the author will identify the patterns between each case and draw from their own experience and the non-academic literature to improve the understanding on the causes leading to a particular growth strategy.

Both a founder and an investor were interviewed for each case except for BraFit were the investors were inaccessible. CustoFeed, refused investment as part of their identity and do not have investors. For MusiProd, the investor is also a co-founder but a second co-founder, and CEO of the company, was interviewed.

The following table presents all the interviews conducted, the name of the cases and the role of the interviewees.

Interview candidates - Investors					
Interviewee	**Case**	**Role**	**Fund**	**Funding stage**	**Interaction**
Paul	1 & 3	Investor	University fund	Pre-Serie A	Face-to-face Interview
Marc	2 & 9	Investor	University fund	Seed	Face-to-face Interview
John	4	Investor	University fund	Seed	Face-to-face Interview
Peter	5 & 6	Investor	Private fund	Series A	Face-to-face Interview
Matt	N/A	Investor	Public fund	Series A	Face-to-face Interview
Luke	N/A	Investor	University fund	Pre-seed	Face-to-face Interview

Table 3.1: List of interviews conducted with VC/s

Interview candidates - Founders					
Interviewee	**Case**	**Role**	**Start-up**	**Found ing**	**Interaction**
Jonas	1: HorseBack	Co-Founder	App gathering data from sport activity for sportsman	2016	Face-to-face Interview
Anna	2: ProductPlant	Co-Founder/ CEO	Production of a plant based material	2016	Face-to-face Interview
Marcus	3: RecipeShop	Co-Founder/ CEO	Online shopping tool	2014	Face-to-face Interview
Elina	4: FollowMyRun	Co-Founder/ CEO	App gathering data from sport activity for followers	2015	Face-to-face Interview
Tobias	5: ClassyBnB	Co-Founder/ CEO	Selective peer-to-peer housing platform	2016	Face-to-face Interview
Joakim	6: MusiProd	Co-Founder/ CEO	Music production studios and music sharing platform	2016	Face-to-face Interview
Andreas	7: CustoFeed	Co-Founder/ Sales manager	Terminals and online platform for gathering feedback	2013	Phone Interview
Emily	8: BraFit	Co-Founder	3D printed clothes	2016	Face-to-face Interview
Pauline	9: AlgoInvest	Co-Founder	Stock investment platform	2014	Face-to-face Interview

Table 3.2: List of interviews conducted with founders

4. Empirical Study

This chapter will be the fundamental ground in this paper's phenomenon-driven research where several cases is presented in its own unique way. However, the cases are based on the same research question, it is the same experiment and the same conditions. In the presented cases, both the founders and one of the investors was interviewed, except CustoFeed and BraFit. Each case is analysed individually in each "conclusion" section. Using an interpretivist approach each strategic focus was analysed. The strategic focus are the "phenomena" and are either a focus on user growth or profitability. The "Cause" is the reason that led the start-up to have the strategic focus. The "Effect" is the operational reality to implement the strategic focus. In other terms: What changed in the start-up. At the end of the present section all the results are combined. Also each case study will present the story of the start-up and its approach on the research questions.

4.1. Case 1: HorseBack

4.1.1. Background

Horseback uses the phone or smart-watch as a data collection device to collect and analyse how the horse is moving and how the rider burden the various sides of the horse in order to present the collected data to the rider. According to HorseBack this minimizes the risk of injury for the horse and increases the development for the rider. The app is free for the users and HorseBack revenue model relied on sponsorship from partners.

The application was launched in September 2016 as a beta version but attracted almost 4 000 users over one night. The user growth has continued rapidly, and HorseBack are now on a 250 000-user base.

HorseBack has currently 10 employees and has raised 800 000 SEK from public funds and raised external venture capital of 3,5 million SEK from a university venture fund and business angels. According to Jonas, the CEO, the purpose of this investment is to increase user growth.

4.1.2. Story

According to Jonas, HorseBack has not changed their business plan in a significant way since their creation. The core business idea has been the same from the beginning. However, the app and its functions have been improved over time based on user feedback and demands. The market that HorseBack is addressing is very niche and has a strong community feeling around it. This has its pros and cons. The pro side is that if they attract one rider in a stable and this rider is satisfied and find that the product increases his value regarding horse riding this person is very likely to spread the app and share it with colleagues and friends. This kind of behaviour pattern increases the user base with limited marketing needs. However, if the rider in question is dissatisfied, this will also spread rapidly. The potential growth impact of each user pushed the demands of quality and user experience of the app. Therefore, for the last two years the main strategy of the start-up was to improve the product to satisfy the users.

HorseBack has been offering a free service so far to generate user growth due to the future possible income that the user could generate. But they recently saw a decrease in the speed of their user growth. The peer-recommendation and social media marketing channels were not enough to reach for new users. To continue their user growth, HorseBack needed additional investment to fund a more aggressive marketing campaign.

The main motivation for Jonas to pursue this growth was mostly to pursue servicing the horseback rider community but Paul, the investor, knew that potential investors will be reluctant to increase the investment in a start-up that could not properly monetize its user base. Paul and Jonas have, therefore, a slightly divergent perception of growth in terms of expected consequences. Paul, the investor, aimed to consolidate the business and prioritize the capitalization aspect of the start-up in anticipation of the next funding round. On the other hand, Jonas, the founder, pursued the growth strategy as a factor of personal commitment and a means of independence. Indeed, by creating a premium version of the app with added features, HorseBack will be able to generate enough revenue to fund the desired expansion with a limited need of investment.

When mentioning the strategic decision process during the interviews, both the investor and the founder described a collaborative process where both parties agreed on the next step.

4.1.3. Conclusion and case analysis

The team of HorseBack researched several revenue generators and settled with the premium option because they already had all the feedback they needed about the needs and desires of the market. They followed this trajectory at a stage when they knew the market desired their product, but still needed to demonstrate the viability of the business model in anticipation of the next funding stage. This case shows a difference behind the motivation for growth between the investor and the founder. The investor wishes to establish the business while the founders aims to pursue the development of the service provided.

- Cause: Need to generate revenue due to funding stage/Need to generate revenue to invest in new user reach
- Phenomena: Focus on profit
- Effect: Creation of a premium option

4.2. Case 2: ProductPlant

4.2.1. Background

ProductPlant describe themselves as a visionary algae lab built around unique traits of certain diatom species, i.e. their outstanding ability to grow well in low temperature and low light conditions.

According to the co-founder and current CEO of the company, Anna, the company was founded in 2016 but the adventure began in 2014, when the leader of this one of kind production company was at the University completing the entrepreneur school. Marc, from the same university venture fund, was an early investor and is still member of the board.

Today, ProductPlant has 5 full time employees: Anna, the CEO, the researcher whose findings triggered the present venture, as well as two researchers and a process engineer. The current pilot production facility can produce 30kg of algae per year. ProductPlant have clients in the solar panel and cosmetic sectors.

ProductPlant raised 5 million SEK in May 2017 and 17 million SEK in 2018. (Crunchbase, 2018)

4.2.2. Story

At a very early stage ProductPlant had contacts with a Swedish petroleum corporation, which helped ProductPlant, so they could create some new products based on algae. They first approached the corporation to get some funds to start a production. During this stage they gained a better understanding of the cost related to the production of this type of algae.

The first idea for commercialization was to increase the efficiency of solar panels but later ProductPlant found a niche market in the cosmetic industry. Today, they are also approaching the battery industry. The customer shift from the solar panel industry to the cosmetic industry was a major strategic change for ProductPlant.

According to Marc, an investor, when he joined the board, ProductPlant had a very strong ecofriendly identity and working for the solar panel sector was a huge part of this identity. The solar panel industry was really interested in the silicon produced by ProductPlant but they needed a very large supply and could only place an order if this demand could be answered. ProductPlant needed large investments and more experience on the production mechanisms before being able to scale up to production capacity to a level that could answer the solar panel sector needs.

The board decided to refocus the effort of the company on analyzing the different properties of the algae to be able to explore more sectors. “We cut down the material in the algae in order to have a better visibility on their functions and possible uses for it” says Anna. She recalls the moment in 2017 when the cosmetic sector became an option: “The cosmetic business actually contacted us because they heard that we are creating something that they maybe could use”. Product Plant was able to investigate this new application because they had a better understanding of their product and possible uses. This new opportunity required less volume to be able to sell and while they had already decided to build the pilot factory in a near future, the possibility to generate revenue at a smaller scale accelerated the process.

According to Marc, the early investor, the company contacted the cosmetic companies and asked if they wanted to test the product. After the cosmetic companies tested the product they decided to go further to supply their ecofriendly line. For Anna it was very important to remain a company driven by environmental impact even if it meant impacting the cosmetic industry before the solar panel one.

Today, SAF as a better experience on the production process but can also show a track record of revenue. They are now looking for an investment of 30 million SEK to build a new factory that will be able to produce the quantity required by the solar panel industry while investigating new potential customers such as the battery industry.

4.2.3. Conclusion and case analysis

According to the Investor, Marc, ProductPlant created the opportunity by approaching possible consumer previously identified by analysing the product. But for the founder, Anna the consumer came forward with the opportunity because they heard ProductPlant was developing something of possible interest. Regardless of the way the opportunity is perceived, it was made possible because of the desire of consumer diversification.

ProductPlant was in a situation where they had to increase their production volume before being able to generate revenue. This approach could only be possible using a significant investment that was not available at the time. ProductPlant then decided to diversify their product to find a smaller scale customer that will be able to generate revenue while keeping their identity as an environment driven company. The motivation to pursue this strategy was a way to consolidate the business for the investor but a factor of personal commitment for the founder. The strategy was considered only when the original approach failed. This new strategy allowed them to open their pilot facility quicker but also improve their understanding of the production process and every side of the business (Employee management, invoice system, stock and delivery management, quality control, etc.). Those teachings will allow ProductPlant to be able to manage a bigger production facility in the future while securing several growth possibilities (diversification of the customer within an already explored sector or diversification of sectors) and limit the future threat of customer.

- Cause: Need to show revenue to secure next investment
- Phenomena: Focus on user growth by exploring new markets and focus on the market segment generating revenue
- Effect: New customer found. Able to generate revenue from new customer. Able to build pilot factory for new customer.

4.3. Case 3: RecipeShop

4.3.1. Background

RecipeShop was created by 3 founders back in 2014, Jonas is now the CEO. The aim of RecipeShop was to digitalize the grocery shopping from offline to online. However, the rising market of online grocery shopping was a market quite hard to penetrate. Jonas and his co-founders saw that they needed to add some features to distinguish themselves from the existing or rising competitors. RecipeShop added a meal solution simplifying the shopping process. They detected that an average consumer picks 50 items each time they went to the supermarket. A behavior that "lacked efficiency" according to Jonas. RecipeShop allowed the customers to select the products needed to prepare a specific dish. They had a promising user growth, but they detected a major risk that could jeopardize the entire business.

4.3.2. Story

RecipeShop made an important pivot to dodge a major risk that existed in their earlier business model. Originally, RecipeShop delivered a service for private consumers. The business model was to create a platform where private consumers could shop groceries online based on which course they wanted to cook. This enabled an easy shopping tool were everything on the recipe automatically ended up in your online grocery cart. Instead of picking numerous items separately. The start-up showed an important user growth and was well appreciated. When looking at the numbers, it was a solid and growing start-up.

Even though the user growth was on point, a problem was increasing. RecipeShop was relying on one supplier. A threat of supplier that presented an important risk for the company and to decrease it RecipeShop started to probe the market to develop new contacts with other supplier who saw RecipeShop as a competitor and could not see the value in a partnership. The risk remained and the fact that RecipeShop could not deliver a service if their only supplier pulled out could be devastating. However, the user growth continued and RecipeShop was very successful from a user growth point of view.

Eventually, RecipeShop decided to pivot in to a business to business model instead of business to consumers. The strategic decision was made because the risk became more important as the number of users grew. The opportunity came from a potential client for this new approach. The main motivation for Jonas was to consolidate his business and to do so he had to reduce the risk.

4.3.3. Conclusion and case analysis

RecipeShop followed a strategic trajectory to minimize the risk in already successful business model. While the founders were aware of the risk, they waited for the opportunity to come to them through a client who heard about their product. This strategic pivot was made in concert with the investors.

- Cause: Manage the risk from threat of suppliers.
- Phenomena: focus on user growth by exploring new markets.

- Effect: Diversification of their offer, found new customer, able to meet new demand with lower risk

4.4. Case 4: FollowMyRun

4.4.1. Background

At the beginning of 2014, Elina's husband is once again preparing for a race. She knows that after the start she will not be able to see him and follow his progress until the end of the race. Until then she waits. At this very moment she sees an opportunity to develop a service helping the supporters to follow the evolution of a specific runner along the race. The idea for FollowMyRun is born.

She started working with her co-founder relying on a loan from Chalmers Venture to attract the services of a developer. A year later, FollowMyRun will receive a sufficient investment for the two co-founders to receive a salary. Today 11 people work on delivering the app for their growing 250,000 users.

FollowMyRun provides a wide range of services. Friends of the runner can follow a live video feed of the runners' race, chat with other friend, have arrival time estimate to checkpoints and follow multiple runners on multiple races. They cover races from Gothenburg's half-marathon to Rome's marathon.

FollowMyRun raised SEK 3M in the beginning of 2016 and SEK 5M in April 2017. In 2018 they received new funding for more than 10M SEK (Crunchbase, 2018).

4.4.2. Story

In 2018, FollowMyRun needed to focus their resources on a defined strategy after proving that the market desired their product. The start-up strategy will be built around a specific revenue stream. 6 different revenue streams were available. For example, the participants could pay for the app or races organizations could sponsor the app to increase the appeal of their competition. To decide which revenue stream should be explored they needed to analyze the option with the best Key Performance Indicator (KPI). Retention of users; use per user, revenue per user cost of acquisition

The investors and founders started a brainstorming session, defined by Elina as strategy day to explore the core offer and value of FollowMyRun. What did they offer that made them unique? What was the reason Elina started the company in the first place? Using the data and tests gathered during the past 4 years they decided to focus on the followers on the race. They chose this option for two reasons. First the market is saturated with paying offers to the participants. From the price of the race to the price of the equipment, runners already spend quite a large sum of money for each race. Also, runners participate in roughly 3 races a year. So, for every user FollowMyRun could generate revenue only three times a year. On the other hand, followers might follow 40 races a year and represent a far better return per user for FollowMyRun.

They needed to market the app to the participants but design the product for the followers. Indeed, the participants are the one bringing the followers (Around 3 followers per participant).

In the future, FollowMyRun will consider a premium service but for that they need to drastically increase the number of races covered so followers feel the need for a constant use of the app. Until then it will remain a pay per view system.

4.4.3. Conclusion and case analysis

FollowMyRun had a paying app from the beginning. But both the investors and the founders understood that for the business to grow they needed to improve the revenue stream of the company. Their market research and analysis allowed them to come up with the best trajectory possible. For Elina it was to consolidate the business but also as a personal commitment as race follower herself.

- Cause: Need to generate more scalable revenue for new funding stage
- Phenomena: Focus on the user segment that generates more profit
- Effect: Change the marketing strategy, target new races and change their perception of the App.

4.5. Case 5: ClassyBnB

4.5.1. Background

In 2015, as an experienced traveler, Tobias was tired to look for the perfect home to visit when looking through the numerous home-sharing platforms. He wanted the best ones. In that spirit Doron created ClassyBnB.

He was alone in 2015, they were six in January 2016, when the company was created, and now the company employs 50 people in two cities.

The core idea of ClassyBnB is to create a handpicked selection of the top 1 percent of properties from the top 25 booking websites. The selection process starts with an algorithm reviewing the top-rated homes in the 25 websites. ClassyBnB then sends a trained expert to review the home and homeowner using a 500 data point form to evaluate both the soft and hard criteria. Finally, the Selection Committee reviews the reports and selects the best ones while giving feedback to the homeowners who did not make the cut. According to the Vora (2017), the ClassyBnB stands out for its selective list of properties and high standards of service.

As of December 2018, ClassyBnB has 1,201 approved homes, 5,623 booking made during 2018 and more 600,000 data point collected in the different homes.

ClassyBnB raised a pre-seed of 250, 000 pounds in 2016 and after two other funding of 1,5 million and 1,7 million pounds they are now looking to raise 15 to 20 million pounds.

4.5.2. Story

Essentially, ClassyBnB has a volume-based business model. They record every month a substantial loss due to their constant growth and high customer acquisition cost on the producer side (homeowners). Not worried, Tobias aims to triple that loss by next year.

The all point to a volume-based business model, according to Tobias, is not to be profitable on a sole income statement perspective. The first aim was to find market fit. They did. Then they wanted to prove that the idea could work as business. Can they be profitable on one unit? They reached that stage during the summer 2018. Each homeowner stays for around 10 booking and ClassyBnB generates a profit during that time. But while, they are still working on increasing the profitability per unit without reducing the quality of the reviews, their core identity, for ClassyBnB to become cash positive they need to increase their volume.

The new round of funding, described as Series B by Tobias, aims to finance their growth while sustaining their current monthly losses. The founder believes that the start-up market went through a shift in the last years regarding the criteria for growth sustaining funding, especially in Europe. The main criteria used to be user growth only but now, volume-based business models need to prove that they can generate a profit per unit.

4.5.3. Conclusion and case analysis

While having found market fit early, the ClassyBnBs business model demands a high volume of users for them to be profitable and, therefore, rely highly on investors' money to exist. As the start-up market evolved, investors require new insurances in volume-based start-ups. This aspect was confirmed by Peter, an early investor. ClassyBnB needed to prove that each unit could be profitable. The main aim for Tobias is to consolidate his business.

- Cause: Need to show the business could work due to new funding stage/Need investment to continue user growth
- Phenomena: Focus on profitability per unit
- Consequence: Increase user retention and decrease acquisition cost. Make the homeowner stay longer and users use more

4.6. Case 6: MusiProd

4.6.1. Background

MusiProd is a 24/7 self-service rehearsal, DJ and production rooms across the UK, the US and soon the world. The idea of seeded as the founder, Joakim, wanted to create his own rehearsals studio with his band in Bristol in the early 2010s. Soon after, the band separated but Joakim wanted to keep the studio and needed some help for the rent. He started renting it to a few friends. While being in London he continued handling his studio from a distance and saw the possibility for a bigger venture.

With a friend they build a 24/7 accessible studio prototype with the simplest booking system. It worked. From this first milestone they managed to raise investment and in January 2016 they opened 6 studios in one location in Bristol. A wide range of technology allowing the all process from the booking (Online booking and touch screens in the room) to the recording (AI mixing and mastering) and the sharing (Live streaming on social platforms) to be completely unmanned, support the studios. Today they have over 300 studios in 21 locations in the UK and US.

MusiProd raised 20M dollars in November (Crunchbase, 2018) and is entering an all-new phase of development.

4.6.2. Story

The 24/7 studios are a profitable business with very low operating cost due to the impressive technology developed by the start-up. All the technology was developed in-house and the first music studio in Bristol supported by a simple Google form seems like very ancient history. Today bands, DJ and producers have the possibility to book online on a more dynamic schedule, but the most impressive feature is the AI developed to mix and master the music produced in real time. The artists have then access to the material produced and are able to share live it with their fans on social media.

Their revenue stream is proportional to the number of studios they have and is, therefore, very linear. According to Joakim, they could grow organically from this stage and support their growth with their profit, but Joakim wishes to move away from linear revenue and start an exponential curve in order to consolidate the business and increase its value. He realized that MusiProd is not only a series of physical locations but also an international community of musicians and fans. The studios give access to the musicians that in turn give access to the fans.

Looking through other opportunities, Joakim developed a strategy based on business models showing an exponential growth of revenue. His new strategy has three stages:

- Open 10000 studios worldwide,
- Create a premium package to generate subscription revenue with new features such as the ability for the artists to store their creations online but not directly accessible by the fans,
- Create a distribution Platform to give access to the fans and by-pass the current social media.

After raising the 20M dollars in November 2018, MusiProd is currently on the second stage

4.6.3. Conclusion and case analysis

MusiProd is a fast-growing start-up that managed within its three first years to show a tract record and consistent revenue stream. They wished to move away from linear revenue and start generating exponential revenue, as it will increase the value of the company. They raised a second stage of funding to support the investment needed for their new vision. After focusing during three years on user growth they now focus on profitability growth. In their user growth stage, they still focus on profit by improving their acquisition and operating cost and in their profitability growth stage they will still expand their product to new countries and markets. This approach was made together with the co-founder and early investor Peter.

- Cause: Increase the value of the company in anticipation of new funding stage
- Phenomena: Focus on profit by making revenue exponential and not linear
- Consequences: Created a subscription package, create a music-sharing social plat-form

4.7. Case 7: CustoFeed

4.7.1. Background

CustoFeed is a company providing a support for gathering employee and customer satisfaction for their clients. They install at their client's workplace a digital tablet located near the exits to gather the opinion of the customers and employees. They can formulate a wide range of different questionnaire in many languages

The terminals are rented to the clients and CustoFeed takes care of everything from the Internet connection to the maintenance. Finally, the different features and questions on the tablets can be designed online and the clients have access to the results on a web page available at all time.

All is included in a single subscription with no additional start charge. The price depends on the number of terminals the clients need and how long they want them.

The company was founded in 2013 but the idea started in 2012 with two founders. In 2013, Andreas, in charge of the marketing, joined the team.

4.7.2. Story

The main particularity of CustoFeed is their refusal of relying on investment as a growth support. They wanted to conduct a 101 business by developing their product, sell it to customers and use the revenue to improve the product while expanding their market. When they first had the idea of the start-up when the saw that companies need to have some feedback on their employee's satisfaction they knew they could develop a product that will sustain on organic growth. They were comforted in their impression when, the after some market research, they saw that companies needed also feedback from their customers.

They did get some investments on the company. They received a small starting fund from Chalmers Venture at the beginning and they stop taking salary in the spring 2018 to direct the revenue on the company and not themselves. The latter choice is equivalent to a personal investment on the company.

According to Andreas, they did not want to have pressure from someone outside the company while keeping their equity.

Due to the lack of exterior funding the team of founders had to rely solely on their revenue for receiving a salary and invest in the growth of the company. For that reason, they focused from the beginning on generating revenue from their product. They focused on two aspects. They improved the features of the product, such as client customization, quality of the product or automatically generated reports, to be able to sell for a higher price. They also worked on limiting their operating cost by reducing the acquisition cost of the terminals.

While the company saw some sales growth recently, it is not enough, and the team is not able to find a way to scale up the business. The founders and especially Andreas, the last remaining full-time employee after some important clients stopped using the product, is feeling a bit overwhelmed by their workload as they lack resources. Today they are looking for an exit strategy by finding a company that will buy them.

4.7.3. Conclusion and case analysis

The main strategic choice of CustoFeed was to refuse any exterior investment to keep full control of their start-up. This choice forced them to have, very early on, a high focus on profitability. Also, their resources were very limited, and every penny had to count. They needed to focus on the product while trying to find customers in the market the first identified. Their lack of funding made them unable to diversify their offer and adapt it to new markets or customers beyond the first two applications (employee and customer satisfaction). While they were successful in making a profitable business, they were unable to use that profitability to sustain the user growth they hoped for. This put them in a situation where a single loss of a client could jeopardize the entire company. Today they are looking to sell the company whose main value is the product but not the user base.

- Cause: Refuse investment to keep control over the company
- Phenomena: Focus on profitability, both unit profitability and overall benefits. Use the market they first identified.
- Effect: Developed a profitable product but was unable to scale-up. Too dependent on existing clients. Unable to allocate resources on developing new products for new markets. Looking for an exit.

4.8. Case 8: BraFit

4.8.1. Background

Claire Chabaud was travelling in China when she saw that while McDonalds was adapting its recipes to the Chinese market, Etam was offering the exact same product than the ones available in France. She knew that women's breasts have different forms and shapes and cannot be defined by a standardized size. Soon after she learned more about the possibilities of the 3D printing technology and won 30,000 euros in 2016 by pitching the idea to redesign the support for women breasts starting with the individual form of their body, by using 3D technology (scanning and printing), during a competition to the Banque Public dInvestissement (BPI), a public investment fund. Emily, an underwear designer, joined her and together they created BraFit in 2016.

Today BraFit has three full-time employees overseeing the work of 20 people including engineers, designers, branding specialists and marketers. They successfully launched a Crowd funding campaign in 2018 that they will deliver in 2019 when they plan to officially launch the product and rebrand their offer.

4.8.2. Story

The venture of BraFit started when the two co-founders realized that the lingerie sector was not properly addressing the need of their customers. While 3D printing was seen as the best way to achieve a better service for women Emily and Sophie wanted to ask the women first before providing an answer. Using an online survey, they gathered the opinion of hundreds of women soon understanding the huge scale of the problem. Unsure about the proper way to address those problems, they met Bre Pettis, the CEO of MarketBot Industries, a company that produces 3D printers, who advised on focusing on one challenge at the time. Their study revealed that 77 percent of the women experienced discomfort from the under-breast armature. They were also confronted to a limitation in the available technologies with the inability to print fabric. From these observations they focused their effort on three technologies. The 3D scans of the breast, the development of an algorithm allowing a precise mensuration and the 3D printing of the under-breast armature.

After developing a 3D scanning software, BraFit used it to scan the breast of over 300 women while collecting their feedback to improve their offer. This gave the start-up a one of kind database that will put them in the forefront of 3D printed lingerie as soon as the technology to print fabric is available. As the amount of data collected increase so does the quality of the algorithm.

BraFit could not wait for the technology to print fabric to be available and decided to launch a first round of production without it and print only the under-breast armature. The rest of the underwear was divided in 5 parts (2 cups, 2 straps and 1 attach) each available in several sizes. The algorithm interprets the 3D scan and choses from the different sizes of the different parts. Each part with the armatures will be delivered to the customer who will assemble them. The pricing for this first version of the product does not cover the full cost of the production but allows BraFit to create a community while improving their database and improve the order to production to delivery process. After the launch of this first version during the spring 2019, BraFit will launch a second version where they will target a profit per unit. While this second version will still not cover their expenses in marketing and research and development they will show that the business works and satisfy the demands of their investors.

The future of BraFit is full of possibilities. They consider first extending their offer to other garments put also applying their two patents (on the 3D scanning app and the interpretative algorithm) to other markets such as medical prosthesis.

4.8.3. Conclusion and case analysis

BraFit purpose is to create a 100 percent 3D printed bra. But the inability to print fabric made them focus on other production possibilities. Their survey showed that one of the major problematics is the under-breast armature and they could provide a solution with existing 3D technologies while creating their own. They started a first round of production losing money on each unit but will move to second round where they will generate profit per unit and meet their investors demands. Until a 100 percent 3D printed bra is possible. This strategic trajectory was pursued to consolidate the business but mostly as a factor of personal commitment to the product and the need of the market. The impulsion of the investors pushed the founders toward this course.

- Cause: Need to show that the idea works and show revenue for next funding stage
- Phenomena: Start a crowd-funding to finance a first round of production
- Effect: Will deliver on the crowd-funding but with operating losses. Will launch a second round of production aiming to generate operating profit

4.9. Case 9: AlgoInvest

4.9.1. Background

AlgoInvest aims to help people by creating better investment solutions. The three founders created the start-up in 2014. One of them is a mathematician who worked in Finance and knew about the different investment tools large funds were using. They wanted to allow private investors to access these tools while avoiding taking important fees. They offer their customer an algorithm to help them invest according to their preferences. The software combined with today's cheap, available and digital stock trading allows AlgoInvest to replace traditional and actively managed equity funds.

In the spring 2018, AlgoInvest was managing 60 million dollars for 3,000 customers and are now 10 full-time employees.

They started in 2014 with funds from Chalmers Venture, Business Region Göteborg and Almi. One year after they raised their first round of investment and recruited developers. According to Crunchbase (2018) they raised 8 million SEK in May 2017.

4.9.2. Story

At the beginning AlgoInvest was aware of the possibilities that bridging the gap between private customers and sophisticated financial tools could represent. Yet they were not aware of the best product to deliver. So, they started investigating their customers and formulated their product from the market. According to Pauline, at the beginning it was very important to deliver a product that customer will be ready to use and pay for. The strategy was about determining the right sales approach while limiting the acquisition costs and improving the customer retention. For this reason, they developed a subscription package that allowed them to generate revenue.

Being able to generate revenue from their product was not enough, as they needed to reach a certain customer volume to have a profitable business. From this consideration they made two strategic moves. The first one was to completely modify their tools in-depth. While this change was barely visible for the users it required a lot of resources but allowed them to have a more scalable product. The second strategic move came from the customers while the team was not particularly looking in that direction. They started developing more advanced and complex tools for businesses. Those new customers are more lucrative as AlgoInvest can charge higher fees while staying true to their identity by keeping lower fees than classical funds by avoiding a fund manager.

The two strategies were discussed during board meeting with a board described by Nanna as being as involve as the founders. Both strategies came as a way to focus on the product and its profitability and scalability instead of user growth only.

4.9.3. Conclusion and case analysis

The product AlgoInvest delivers came from an in-depth market analysis. While they managed to create a product that user wanted to use and to pay for they needed to change to become profitable. They invested in making their product more scalable, so they can reach a profitable volume and diversified their offer to access a new market with businesses. Today, they continue their impressive growth and aim to compete with the larger national and international banks.

- Cause: Want to become more profitable
- Phenomena: Focus on the product. Diversify their product for a new market. Invest in creating a more scalable product.
- Effect: Increased their volume with the modified product and generated higher profit from the new customer segment.

4.10. Compilation Of Results

Compilation of results				
Case	**Description**	**Cause**	**Strategic Focus**	**Effect**
HorseBack	App gathering data from sport activity for sportsman	Need to generate revenue due to funding stage/Need to generate revenue to invest in new user reach	Focus on profit	Creation of a premium option
ProductPlant	Production of a plant based material	Need to find market fit for new funding stage	Focus on user growth by exploring new markets	New customer found. Able to generate revenue from new customer. Able to build pilot factory for new customer.
RecipeShop	Online shopping tool	Need to manage the risk	Focus on user growth by exploring new markets	Took a different position in the market, able to meet new demand with lower risk
FollowMyRun	App gathering data from sport activity for followers	Need to generate more revenue for new funding stage	Focus on the user segment that generates more profit	Focus on followers not participants, change the marketing strategy, target new races and change their perception of the App
ClassyBnB	Selective peer-to-peer housing platform	Need to show the business could work due to new funding stage	Focus on profitability per unit	Increase user retention and decrease acquisition cost. Make the homeowner stay longer and users use more
MusiProd	Music production studios and music sharing platform	Increase the value of the company in anticipation of new funding stage	Focus on profit by making revenue exponential and not linear	Created a subscription package, create a music-sharing social platform
CustoFeed	Terminals and online platform for gathering feedback	Refuse investment to keep control over the company	Focus on profitability, both unit profitability and overall benefits. Use the market they first identified	Developed a profitable product but was unable to scale-up. Too dependent on existing clients. Looking for an exit
BraFit	3D printed clothes	Need to show that the idea works and show revenue for next funding stage	Focus on profit and user growth	First round of production with operating losses. Will launch a second round of production aiming to generate operating profit
AlgoInvest	Stock investment platform	Want to become more profitable	Focus on the product. Diversify their product for a new market. Invest in creating a more scalable product	Increased their volume with the modified product and generated higher profit from the new customer segment

5. Analysis

The Theory part of the present master thesis identified several research gaps and formulated three research questions:

- **RQ1: At what stage do start-ups start formulating growth strategies?**

- **RQ2: What are the reasons motivating the founder toward a particular growth strategy?**
- **RQ3: Does the motivation behind the founders desire for growth impacts the choice for a particular growth strategy?**

After analyzing each case individually regarding the strategic focus phenomenon, the present section aims to consider the cases together to identify trends in the reasons leading start-ups to follow a certain growth strategy and, by doing so, answer the research questions.

5.1. Defining Growth

In the introduction of the present research, the growth strategies were identified as being either focused on profit or user growth. But before analyzing the reasons motivating those strategies, it can be argued that the concept of Growth needs to be defined.

When defining growth with the help of several VCs and non-academic literature, it appears that growth has as many definitions as it has people defining it. Luke from a university fund defines growth as Profit. According to him, there are only a few companies in the world that can consider being solely user oriented. User growth can be pursued only if it supports profit or will support it. User growth is secondary and can be sacrificed for the sake of profitability. In a start-up, that Luke worked with, they scaled down to only 10% of their user base to generate a higher profit from them. This approach increased revenue, profit and the value of the company.

However, according to Marc from another university fund and investor in ProductPlant and AlgoInvest, growth is not related to money, as it could be understood when mentioning profit. Growth is adding costumers or users to your business. By increasing the number of consumers using their products, even if you do not get paid for it, the start-up is growing.

According to Matt, from a public fund, growth depends on the success matrix of the start-up. If you are selling shoes, growth could be considered the increase of sales, which is equivalent to an increase in revenue and most likely in profit. He adds that growth is when a company becomes higher valued preferably at a lower cost. What is emphasized is a broader understanding of growth with its relation to the specific success matrix that start-ups have.

What is interesting is that while the VCs have different perception of growth, the underlying meaning of the definition is the same. Increasing profit could increase the value of the company if this is considered a factor in the success matrix. For example, increasing user growth could increase the value of the company if this is considered in the success matrix. Thus, a definition of growth applicable in a broader sense could be:

Growth is the increase of the start-up's value.

This definition strengthens the concept of growth and creates a more applicable definition. This perspective is highly supported by the empirical study where every growth strategy was motivated by the desire to increase the value of the start-up for the next funding stage. The only exception is for CustoFeed that refused to bring in outside investors. But it can be argued that by being opposed to investment from outsiders the founders decided according to their relationship to funding.

But if growth is adding value to the start-up, what are the Growth Strategies formulated by Founders and why?

5.2. Funding Stages

When the study started, the authors were not familiar with the concept of funding stages. This concept was first encountered while participating in the activity of the founders and investors. During the interviews, the interviewees were always the ones putting forward this concept.

The investors described their role depending on the kind of funding stage they handle. The amount of money they could invest defined the funding stage they will join and therefore when they will join a start-up. Non-academicals literature states that the several rounds of funding allow visualizing where start-ups are in their growth from an investment perspective. "The main differences in these rounds are the levels of maturity of the companies, the type of investor involved, the objectives of the fund-raising or how to allocate them" (Reiff, 2018). During the interviews and conversations, shortly after explaining the idea behind the business, Founders mentioned the previous and up-coming funding stage to describe the current state of their business without the interviewers leading them to it.

But funding stages are not only a chronological representation of the start-up's evolution. The need for funding is critical in the definition of a start-up. Indeed, it is one of its core characteristics according to the definition of Patrick Fridenson mentioned in the Theory part. It is with the appearance of the first venture capital companies in 1946 that the concept of start-ups began to appear, even though it was only described as such, for the first time, by Forbes magazine in 1976.

It is not surprising that according to Matt, the underlying causes of the decision, regarding the phenomenon profit or growth, are mostly connected with the next investment round. What is demanded from the start-up before the next investment round to receive a maximum amount of capital for a minimum amount of percentage? The decisions of focusing on profit rather than user growth have a deeper meaning than making a profit for the sake of it. When analyzing the cases, the focus on profit or user growth is related to the next investment round in order to become higher valued and receive more external capital for less percentage possible. Therefore, the focus of the growth strategy of a start-up will be chosen depending on the next funding stage and the success matrix of the start-up.

This analysis answers the first research question and confirms the hypothesis of the method. Founders and investors are constantly strategizing from the early idea to the exit. But while most cases generated revenue with their first user (All except HorseBack, BraFit and ProductPlant) none of them were profitable and they were all trying actively to increase the number of user either directly by providing a free service (HorseBack) or indirectly by reaching to them to gather data and make the product viable (BraFit). During that phase, start-ups survive on the fund received during the first round called "pre-seed" by the actors. The value of the start-up is then measured by the ability of the product to be used: does it have users? Did they find "market fit"? This last term is used to define a situation when users consume a product developed by the start-up. Even if the product is not generating any revenue and is not generating any profit.

At this point, founders, with the help early investors, launch a second funding round called the “seed”. The point of this phase, according to the investors Paul, Marc, John and Luke is to refine the business model and the product in anticipation of the next funding stage: Serie A. VC 1 also refers to this stage, between the “seed” and “Serie A” funding, as the “Growth” stage during which founders will aim to Grow the Value of the Start-up.

Therefore the answer to the first research question is:

RQ1: At what stage do start-ups start formulating growth strategies?

RA1: Growth strategies are formulated during the “growth” stage between the “seed” and “Serie A” funding rounds.

During this phase, Growth in Value is the underlying reason for decision-making caused by the demands of the next funding stage. In order to reach a growth in value, various sub-focuses are created such as, profit, user growth and profit per unit that will have a more direct impact on the start-up, its governance and its product.

5.3. Growth In Profit or Growth In Users

While all the start-ups analyzed share a common goal for Value Growth, their approach slightly differs.

An instinctive strategy to increase the value of a company will be to increase its revenue, focus on profit. In a certain way it is the most used strategy but not necessarily put so abruptly. The most represented approach is a diversification of the offer in order to address more profitable segments. The money generated by the new segment, will either support the un-profitable growth of the original segment or the original segment will be dropped. Case 1 created a premium version of their free app. Case 4 started focusing on the followers of the sport competitions instead of the actors simply on the base that they will be able to use more often the product and therefore increase the revenue per user. Case 9 developed a more advanced and profitable product for a more niche market while preserving their original less-profitable user base. In case 6 they were already generating substantial revenues but their revenue growth curb was very linear and Founder 6 wanted to move towards an exponential growth, a more valuable growth.

All those start-ups focused on Profit by increasing the revenue generated by their resources. Basecamp founder and CEO, Jason Fried, said, “no one ever went broke taking a profit” (Fried, 2017). Well some could and “a push for early profits could lead a company to default to a known model that provides short-term results but stunts experimentation that leads to more long-term value creation” (Anthony, 2008). Indeed, some founders focus on a kind of profit that will demonstrate the viability of the business model but not necessarily ensure an immediate benefit.

Tobias from ClassyBnB said: ”We are losing 3,5 million SEK a month and, if everything goes well, we will lose 10 million SEK a month within a year”. ClassyBnB is showing an impressive user growth, reaching for new regional markets every 6 months. But for modern investors showing an impressive user growth is not enough anymore. According to Tobias, VCs, at least in Europe, want to have proof that the business model is sound. This aspect was confirmed by his investor, Peter.

For that reason, they focused on unit profitability by limiting the cost of customer acquisition and increase the customer retention. Even though they are burning cash every month they know that when the proper volume of users will be reached, they will be able to show profit. Their strategy is to support User Growth to reach a profitable volume in the long term, but before the Serie A funding they need to focus on profitability per unit, thus Profit.

For BraFit, they are limited by existing technologies and have to buy time until the product could be developed at its full potential. In order to experiment on the production chain, they started a first un-profitable round of sales. Shortly after this first delivery they will launch a second round of sales, while re-branding their product, aiming for an operating profit, a profit per unit. They will still not generate enough cash from the sales to support the high cost of research and development, but it will put the investors at ease and guarantee the viability of the business model. This will allow the start-up to raise more funding and sustain their growth until they reach enough volume to gain a profit.

ProductPlant was unable to fund the production facility to meet their first market demands. They explored a different market by developing new applications for their product. This new market has lower demands of volume. They were able to open a pilot facility that will answer those demands while generating an operating profit. The point of this strategy is to demonstrate the potential profitability of the material and in the future get the funding necessary to support the original segment.

In these seven cases two trends are visible in the way start-ups increase the value of their company by focusing on profit. They either diversify their offer and explore more profitable segments (Premium, new product for a new market) or demonstrate that the business model is sound by showing profitability per unit. ProductPlant pursues the two trajectories. To demonstrate that their idea worked they had to explore new markets.

Two other behaviors were identified. RecipeShop was in a situation where their entire business relied on a single supplier they could not diversified. As stated by Porter (1979), the bargaining power of supplier should be limited, and they were too dependent on that supplier. Instead of positioning themselves between the producers and the users they decided to deliver their product as a service for the producers that will use it to better serve their customers. In this strategy the main value was risk management.

CustoFeed refused any investment and aimed for a strategy that Paul Graham calls being ramen profitable, meaning the startup earns just enough to pay the founders living expenses so they can keep working without distraction. It is a healthy balance between growth and profitability" (Graham, 2009). They supported their growth slowly and organically but were unable to compete when new actors arrived on the market.

It is clear, that the main strategy to support the Start-up's Value Growth is to increase the profitability of the product by either diversifying the product and find more profitable segments or proving the potential profitability of the product and focus on operating profit or profit per unit. Improving the risk also appears to be increasing the value of a Start-up.

The Theory part mentioned the work of Davidsson and the idea that the leader's desire to grow his business is related to the consequences he attributes to growth (Davidsson, 1991). The strategic decisions are therefore made depending on the perceived need, ability and opportunity for the start-up to grow.

The perceived need for the start-up is clearly identified in this analysis. In order to exist the start-up needs funding and to get the funding they need to increase their value. The only start-up who refused investment is the only one dying. The strategy, then proceeds on maximizing the value created according to their ability. They will maximize the value created by increasing the revenue generated by their resources or limit their risk. The main resource of a start-up is the product created and managed by its founders and employees. Finally, this resource is developed depending on the available opportunities:

- Diversification of the product for new markets (ProductPlant, RecipeShop and MusiProd),
- Improvement of the product for paying or more profitable customers (HorseBack, FollowMyRun and AlgoInvest)
- Improvement of the operating return (ClassyBnB, CustoFeed, Brafit))

This analysis answers the second research question:

RQ2: What are the reasons motivating the founder toward a particular growth strategy?

RA2: The founders are motivated by the will to increase the value of their start-up in anticipation of the next funding stage as funding is essential to their survival. They will then proceed in maximizing the value generated by their product by exploring new opportunities. The strategy will be enunciated around an opportunity that will generate the maximum value for the next funding stage and the ability of the start-up to pursue it.

But how is the opportunity researched and how does the individuality of the founder impact the strategy?

5.4. Seizing An Opportunity

The Theory part of the present thesis mentioned that leaders might have different perception of growth in terms of personal expected consequences. Indeed, it shows that leaders can see growth as:

- A means of independence,
- A way to consolidate their business,
- A way to establish their personal position,
- A factor of personal commitment.

Depending on the kind of relationship founders have with their investors, also illustrated in the Theory part, the initiation for change to sustain growth often comes from an exchange between the two and the reaction of the founder to feedback is key for the change to happen. Grimes (2018), on the way founders react to feedback, considers that "creative revision is a process wherein founders or other creative workers attempt not only to advance the novelty and usefulness of their ideas by aligning work with external demands, but also to retain a sense of self and subjective meaning". In other words, the idea behind a start-up is not only a market fit but also part of the founder’s identity. And the way founders react to feedback often depends on that core identity.

Grimes (2018) finds that depending on the type of psychological ownership of original idea, founders are more likely to "defend", "repair" or "re-engineer" their product. During the empirical study, it appeared that founders initiated change following different kind of events depending on the relationship they have with their idea. Two trends emerged: Start-ups with Market Origins and Start-ups with Product Origins.

Start-ups with market origins were created when the founders realized that a service was needed in a market. The start-up was built after a thorough market research and a few pivots. This was the case for the start-ups HorseBack, FollowMyRun, ClassyBnB and MusiProd. They are more reactive to feedback and are quick to repair or re-engineer their product but also could move to different markets with their product if it proves to be more promising. FollowMyRun changed the user segment, MusiProd moved from making music production studios to concentrate on creating a music sharing platform. The decision to pursue a strategy is a conscious choice following a market analysis. They analyze the market to define possible strategies. And assess what strategy will bring a higher value to the start-up for the next funding stage. What strategy can increase the Value of the Start-up the most? The product is not part of their identity. Their identity is to become successful entrepreneurs.

Start-ups with product origins created their start-ups around a specific product that is essential to their identity. According to the founder and the investor, ProductPlant will never go for strategy that will contradict their environmental approach. Both the investor and the founder confirmed this. For BraFit, even though, the idea came from a market observation and was confirmed by analyzing the market, the service delivered by the product is essential for the founders. Start-ups with product origins are more likely to defend their idea until they face a situation forcing them to change. The decision to pursue a strategy is often reactive and the opportunity often comes from an un-expected customer, as it was the case for ProductPlant and AlgoInvest They will repair their idea while conserving their main identity.

This analysis answers the third research question:

RQ3: Does the motivation, behind the desire for growth, of Founders, impacts the choice for a particular growth strategy?

RA3: The personality of the founders and the relationship they have with their idea impacts the way they will react to feedback and chose to pursue an opportunity. As such, the motivation of Founders for growth impacts greatly the strategy.

6. Conclusion

The research conducted with the empirical study answered the three research questions and formulated several theories on start-up’s growth strategy.

At an early stage, start-ups focus on the market fit of their product. Growth strategies are formulated during the “growth” stage between the “seed” and “Serie A” funding rounds. During this phase, Growth in Value is the underlying reason for decision-making caused by the demands of the next funding stage. To reach a growth in value, various sub-focuses are created such as, profit, user growth and profit per unit that will have a more direct impact on the start-up, its governance and its product.

Founders formulate the Growth Strategies motivated by the will to increase the value of their start-up in anticipation of the next funding stage. They will then proceed in maximizing the value generated by their product by exploring new opportunities. The strategy will be enunciated around an opportunity that will generate the maximum value for the next funding stage and the ability of the start-up to pursue it.

The main strategy to support the Start-up’s Value Growth is to increase the profitability of the product by either diversifying the product and find more profitable segments or proving the potential profitability of the product and focus on operating profit or profit per unit. Improving the risk also appears to be increasing the value of a Start-up.

The personality of the founders and the relationship they have with their idea impacts the way they will react to feedback and chose to pursue an opportunity. This research identified two groups of founders:

- Founders with market origins are more reactive to feedback and are quick to repair or re-engineer their product but also could move to different markets with their product if it proves to be more promising.
- Founders with product origins are more likely to defend their idea until they face a situation forcing them to change. The decision to pursue a strategy is often reactive and the opportunity often comes from an un-expected customer. They will repair their idea while conserving their main identity.

The present master thesis improves the understanding of the strategy enunciation phenomenon. For future research, a quantitative study should be conducted to confront these observations with a larger number of start-ups and formulate a theory on growth strategy enunciation.

7. References

Anthony, Scott D. (2008). “Should Startups Focus on Growth or Profits?” In: *Harvard Business Review*.

Barney, Jay (1991). “Firm resources and sustained competitive advantage”. In: *Journal of management* 17.1, pp. 99–120.

Bertoni, Fabio, M Colombo, and Luca Grilli (2005). “External private equity financing and the growth of new technology-based firms: The chicken and egg problem revisited”. In: *35th 2005 EISB Annual Conference*. Barcellona, pp. 1–30.

Billard, Laurence, Jean-Pierre Boissin, and Berangere Deschamps (2003). “Profil du dirigeant et representation des mecanismes du gouvernement d’entreprise”. In: *La Re-vue des Sciences de Gestion: Direction et Gestion* 204, p. 35.

Bogdan, Robert and Steven J Taylor (1975). *Introduction to qualitative methods: A phe-nomenological approach to the social sciences*.

Boissin, Jean-Pierre, Bénédicte Branchet, Sandrine Emin, and James I. Herbert (2009). “Students and Entrepreneurship: A Comparative Study of France and the United States”. In: *Journal of Small Business and Entrepreneurship* 22.2, pp. 101–122.

Bonn, Ingrid and Andrew Pettigrew (2009). “Towards a dynamic theory of boards: An organisational life cycle approach”. In: *Journal of Management and Organization* 15.1, pp. 2–16.

Boutin, Gérald, Gabriel Goyette, and Michelle Lessard-Hébert (1990). “Qualitative in-vestigation: the fundamental of the practice”. In: *Lisboa: Instituto Piaget*.

Chanut-Guieu, Cecile, Franck Tannery, et al. (2009). *La strategie d’hyper croissance des moyennes entreprises: entre logique dominante et pratiques strategiques paradoxales*. Tech. rep.

Charreaux, Gerard (1997). *Le gouvernement des entreprises: Corporate Governance: the-ories et faits*.

Chevigny, Ingrid de (2015). *Au fait, c’est quoi une startup ?* URL: https://www.capital.fr/entreprises-marches/au-fait-c-est-quoi-une-start-up-1063221 (visited on 10/19/2018).

Cliff, Jennifer E. (1998). “Does one size fit all? Exploring the relationship between atti-tudes towards growth, gender, and business size.” In: *Journal of Business Venturing* 13.6, pp. 523–542.

Collerette, P (1996). *Dictionnaire des métho- des qualiratives en sciences humaines et sociale*.

Conway, Kellyanne (2017). *Kellyanne Conway: Press Secretary Sean Spicer Gave Alter-native Facts, Meet The Press, NBC News*. URL: https://www.youtube.com/watch?v=VSrEEDQgFc8 (visited on 12/21/2018).

Crunchbase (2018). *Crunchbase*. URL: https://www.crunchbase.com (visited on 12/02/2018).

Daval, H, B Deschamps, and S Geindre (2002). “Proposition dune grille de lecture des profils dentrepreneurs”. In: *Revue Sciences de gestion* 32, pp. 53–74.

Davila, A., Foster, G., & Gupta, M. (2003). Venture capital financing and the growth of startup firms. Journal of business venturing, 18(6), 689-708.

Davidsson, PEL (1991). “Continued entrepreneurship and small firm growth.” In: Davidsson, Per, Frederic Delmar, and Johan Wiklund (2006). *Entrepreneurship and the Growth of Firms*. Edward Elgar Publishing.

Denis, David J (2004). “Entrepreneurial finance: an overview of the issues and evidence”. In: *Journal of corporate finance* 10.2, pp. 301–326.

Depret, Marc-Hubert, Abdelillah Hamdouch, et al. (2004). “La gouvernance des jeunes entreprises innovantes: un eclairage analytique a partir du cas des societes de biotech-nologies”. In: *Finance Controle Strategie* 7.2, pp. 67–94.

E, Solmossy (2000). “Entrepreneurial Dimensions : The relationship of individual, ven-ture and environmental factors to success”. In: *Entrepreneurship, Theory and Practice*, pp. 79–80.

Eisenhardt, Kathleen M. (2007). “THEORY BUILDING FROM CASES: OPPORTU-NITIES AND CHALLENGES”. In: *Academy of Management Journal* 50.1, pp. 25– 32

Fitzpatrick, Rob (2013). *The Mom Test. how to talk to customers and learn if your business is a good idea when everybody is lying to you*. foundercentric.com.

Forbes, Daniel P and Frances J Milliken (1999). “Cognition and corporate governance: Understanding boards of directors as strategic decision-making groups”. In: *Academy of management review* 24.3, pp. 489–505.

Gabrielsson, Jonas and Morten Huse (2002). “The venture capitalist and the board of directors in SMEs: roles and processes”. In: *Venture Capital: An International Journal of Entrepreneurial Finance* 4.2, pp. 125–146.

Graham, Paul (2009). *Ramen Profitable*. URL: http://paulgraham.com/ramenprofitable. html (visited on 12/21/2018).

Grimes, Matthew G (2018). “The pivot: How founders respond to feedback through idea and identity work”. In: *Academy of Management Journal* 61.5, pp. 1692–1717.

Hayat, P (2012). “Pour un new deal entrepreneurial-Creer des entreprises de croissance”. In: *Rapport de mission a lintention de Madame Fleur Pellerin*.

Hege, Ulrich (2001). “L’evaluation et le financement des start-up Internet”. In: *Revue economique* 52.7, pp. 291–312.

Hughes, Everett Cherrington (1970). “Teaching as fieldwork”. In: *The American Sociol-ogist*, pp. 13–18.

Huse, Morten (2000). “Boards of directors in SMEs: A review and research agenda”. In: *Entrepreneurship and Regional Development* 12.4, pp. 271–290.

Janssen, F. (2011). *La croissance de lentreprise : Une obligation pour les PME ?* De Boeck.

Jaouen, Annabelle (2008). “Le dirigeant de tres petite entreprise: elements typologiques”. In: *Actes du 9e CIFEPME*.

Jensen, Michael C and William H Meckling (1976). “Theory of the firm: Managerial behavior, agency costs and ownership structure”. In: *Journal of financial economics* 3.4, pp. 305–360.

Karoui, Lofti et al. (2007). *Formes d’activation des conseils d’administration dans les pme: une etude exploratoire dans le contexte francais*. Tech. rep.

Lasch, Frank, Frederic Le Roy, and Said Yami (2005). “Les determinants de la survie et de la croissance des start-up TIC”. In: *Revue francaise de gestion* 2, pp. 37–56.

Lebret, Herve (2016). *Start-Up, une culture de l’innovation*. Broché.

Lewis, V. L., & Churchill, N. C. (1983). The five stages of small business growth.

Mayer, Colin (2004). “Venture capital and the corporate governance life cycle”. In:

Morris, Michael H, John W Watling, and Minet Schindehutte (2000). “Venture capitalist involvement in portfolio companies: Insights from South Africa”. In: *Journal of Small Business Management* 38.3, p. 68.

OECD (2004). “Principes de gouvernement dentreprise de lOCDE”. In: *OECD*, p. 74. OHear,

Palmer, Vivien. M (1928). *Field Studies In Sociology*.

Penrose, Edith and Edith Tilton Penrose (2009). *The Theory of the Growth of the Firm*. Oxford university press.

Pouget, Jereme and E Stephany (2002). “Gouvernance de la relation capital risqueur-entrepreneur”. In: *Actes du 6eme Congres International Francophone sur la PME, HEC Montreal*.

R Bellu, Renato (1993). “Task role motivation and attributional style as predictors of entrepreneurial performance: Female sample findings”. In: *Entrepreneurship and Regional Development* 5.4, pp. 331–334.

Reiff, Nathan (2018). *Series A, B, C funding: How it works*. URL: https : / / www . investopedia.com/articles/personal- finance/102015/series- b- c- funding-what-it-all-means-and-how-it-works.asp (visited on 01/04/2019).

Ries, Eric (2011). *The lean startup: How today’s entrepreneurs use continuous innovation to create radically successful businesses*. Crown Books.

Roberts, Edward B (1991). *Entrepreneurs in high technology: Lessons from MIT and beyond*. Oxford University Press.

Skarin, Ulf (2018). “Meet the rising fintech duo transforming how Sweden invests”. In: *business Insider Nordic* 29 Mar 2018.

Start-up Genome, Global Start-up Ecosystem Report, Succeeding in the New Era of Technology, 2018

Suster, Mark (2015). *Should Startups Care About Profitability?* URL: https://bothsidesofthetable. com / should - startups - care - about - profitability 828250a34a7d (visited on 09/21/2018).

Talaulicar, Till, Jens Grundei, and Axel v Werder (2005). “Strategic decision making in start-ups: The effect of top management team organization and processes on speed and comprehensiveness”. In: *Journal of Business Venturing* 20.4, pp. 519–541.

Tarillon, Caroline (2017). “Comment soutenir la croissance des start-up? Une analyse au travers des representations des dirigeants en matiere de croissance et de gouvernance”. In: IAE Grenoble

The Infographic.ly Team (2017). *Infographic: The Growth Of Entrepreneurship Around The Globe*. URL: https : / / www . entrepreneur . com / article / 288286 (visited on 12/31/2018).

Tödtling F., Wanzenböck H (2003). “Regional differences in structural characteristics of start-up”. In: *Entrepreneurship and Regional Development*, pp. 351–370.

Van de Ven, Andrew H and Everett M Rogers (1988). “Innovations and organizations: Critical perspectives”. In: *Communication research* 15.5, pp. 632–651.

Vellin, Dominique (2013). *La creation d’entreprises innovantes, Panorama et defis*. Tech. rep. Paris Dauphine University.

Vroom, Victor H (1964). “Work and motivation. new york: John willey and sons”. In: *Inc. VroomWork and Motivation1964*.

Wernerfelt, Birger (1984). “A resource-based view of the firm”. In: *Strategic management journal* 5.2, pp. 171–180.

Wirtz, Peter et al. (2008). *Les firmes entrepreneuriales en croissance ont-elles un systeme de gouvernance specifique?* Tech. rep. Universite de Bourgogne-CREGO EA7317 Centre de recherches en gestion des organisations.

Wirtz, Peter (2011). “The cognitive dimension of corporate governance in fast growing entrepreneurial firms”. In: *European Management Journal* 29.6, pp. 431–447.

Woo, C. Y., Cooper, A. C., Dunkelberg, W. C., Daellenbach, U., & Dennis, W. J. (1989). Determinants of growth for small and large entrepreneurial start-ups. Frontiers of entrepreneurship research, 1989, 134-147.

Yin, Robert et al. (1984). *case study research. Beverly Hills*.

8. Appendix

8.1. Interview Framework for VC/Investor

1. Can you explain your job and how your organization works?

2. At what stage of a Start-up development, do your organization intervene?

3. At what stage, do you personally intervene?

4. How do you define Growth?

5. Have you invested in (Internet) consumer based start-ups?

6. Just closed an investment round. Who are they building the product for? They were focusing on three different customer groups. They couldn't do that. The focus. *(Description of the start-up, age, sector, etc.)*

7. At where stage was the start-up when you first met them?

8. Can you tell us the story of the start-up development?

   (Reorient him on major strategic decisions, and the reason behind them, can he identify the impact of those decisions, what generated the outcome, identify the timeline (dates))

9. *(If a clear growth or profit orientation)* Why didn't you go the other way?

10. How did the strategic choice process go?

11. Who was the one/s pushing for the strategic decision?

12. How did the other party react? Were there resistances?

13. Could we contact the founders? *(Get the contacts)*

8.2. Interview Framework for Founders

1. Can you describe your start-up?

   (Description of the start-up, age, sector, etc.)

2. Can you describe the evolution of your resources?

   (Number of founders at the start, number of employee year n+1, n+2, n+…, now and projections)

3. Can you describe your growth? *(Define growth timeline)*

4. User Growth: *(users evolution + projection)*

5. Profit Growth: *(turnover evolution and projection)*

6. Can you tell us the story of the start-up development?

   (Reorient him on major strategic decisions, and the reason behind them, can he identify the impact of those decisions, what generated the outcome, identify the timeline (dates))

7. *(If a clear growth or profit orientation)* Why didn't you go the other way?

8. How did the strategic choice process go?

9. Who was the one/s pushing for the strategic decision?

10. How did the other party react? Were there resistances?

11. Could we contact the investors/VC? *(Get the contacts)*