Survey report

2015 State of the Startup

State of the Startup

If you open the world's financial journals you'll read article after article about the world's largest corporations. Yet small businesses matter every bit as much, and in some ways more, to our economic health. Consider a few facts:[1]

- Nearly all businesses are small (99.7 percent in the U.S.; even more outside the U.S.).
- Roughly half the world's workforce work for small businesses.
- Nearly two-thirds of new jobs in our economy come from small businesses.
- Nearly half the GDP and almost ALL of U.S. exports come from small business.

Where do these small businesses come from? According to a recent Gallup poll, more than 400,000 new businesses will launch in the U.S. in 2015. However, as positive as all of this sounds, many new small businesses fail before they reach five years.

As the world's economy sits at a crossroads, more founders are considering new businesses than ever before. The question before them is, what separates the successful startups from those that struggle?

2015 Sage State of the Startup study

To get a complete picture of how startups operate, Sage recently commissioned two in-depth studies on new businesses. The first canvassed 524 new business startups in the U.S. and Canada.

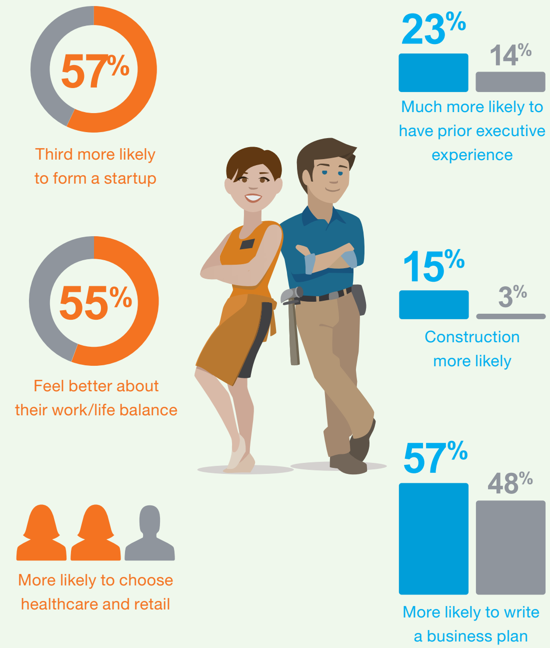
We talked with 175 companies founded within the past 12 months, 175 companies that are between 1 and 2 years old, and 174 companies that are between 3 and 5 years old.

In all cases, we spoke to the founder of the new business.

To add perspective, we also spoke with 102 senior executives at companies who routinely nurture new business startups. These executives worked at a variety of companies from formal venture capital firms to accounting practices.

We spoke with senior managers who interact with new business startups on a frequent basis.

1 SBA Office of Advocacy (https://www.sba.gov/sites/default/files/FAQ_Sept_2012.pdf)

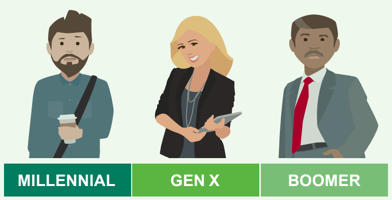


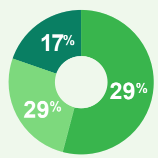
Gender differences

Women are a third more likely to found startups than men. Women bring their own unique perspective to startups in terms of the type of business, how they run things, and their own work/life balance.

Generation gap

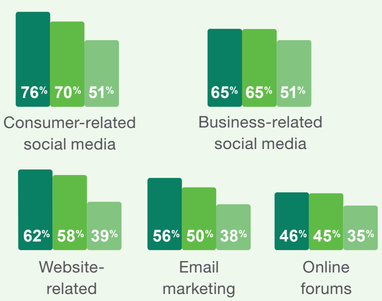
What is the best age to found a startup? Our findings show 30-50-year-olds, also known as Generation X, overwhelmingly dominate the playing field, founding more than half of all new business. They, too, bring their unique perspectives to bear in many areas, especially marketing.

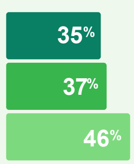




Gen Xers lead the way in terms of who is founding startups

Boomers are lagging way behind in engagement with various marketing functions, especially social





Starting a business seems to get easier with age *(somewhat/extremely easy)*

The entrepreneurial journey

Entrepreneurs are the mythic heroes of our economy. We relish retelling the stories of superstar entrepreneurs such as Steve Jobs, Biz Stone, and Debbi Fields. But are they typical? Most new businesses stay small and don't change the world (at least, not all by themselves).

Let's start with a 360° view of what a "typical" new business looks like, according to our research.

Interestingly, most founders pursued business-related degrees in college as opposed to technical degrees (32% have a degree in business administration and management).

Finally, starting a new business is hard. Founders cited the top three challenges they face as struggling to grow revenue, add customers and secure capital. Day-to-day life can be grueling, with long hours and lots of hard work. Why do founders do it?

In a word, new business founders are looking for freedom. The top three reasons they cited for launching their startup were to "be my own boss", "turn my passion into a business" and "burning desire to work for myself." Money came in a distant fourth.

Snapshot of the typical startup

Hot spots
The most common startup locations are California, Florida, and New York (Toronto for Canada).

Segments
The most popular business segments are services, retail, and construction.

Get that diploma
The stories we've all heard about the high school dropout who went on to achieve success in business are the exception. Nearly all of our founders (99 percent) had a high school degree, and 70 percent had at least a two-year college degree.

Small
Less than 5 employees and a single founder.

No experience necessary
Surprisingly, most founders had no prior startup experience.

A woman's touch
Women are more likely to found new businesses (57 percent have female founders, compared to 43 percent with male founders).

Generation startup
Gen X seems to be the sweet spot for new business founders, claiming more than half (55 percent) of all startup founders.

Secrets of successful startups

Many new businesses struggle. Yet some prosper. Why?

Speaking to 524 entrepreneurs gave us a unique opportunity to study why some startups flourished while others floundered. We analyzed performance on a key set of business metrics to separate the startups into three groups: top, middle, and bottom performers. The metrics we used to segment startups included:

- Growth of top-line revenue.
- Profitability.
- Hiring status.
- Confidence in the business financials they produce.
- Awareness of their company amongst their prospects.
- When they started to take a paycheck.
- How they are doing in terms of meeting their original goals.

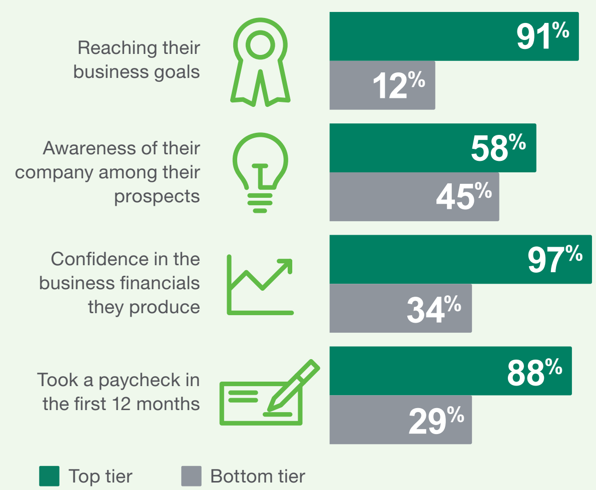
By contrasting the top-tier startups against the bottom-tier startups, we can analyze the differences in business practices and discover the secrets of the very most successful startups.

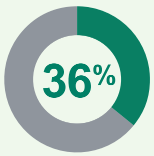
There are several simple lessons top-tier entrepreneurs can teach new founders on how to succeed where others struggle…

1. **Take on a partner.** Top-tier startups were 59 percent more likely to have more than one founder. Launching and running a business can be equal parts rewarding and stressful. When you have a partner to share the mundane day-to-day business tasks, you not only free up more of your time for brainstorms and decision making, but you also have someone who can collaborate on those more creative pursuits
2. **Don't skip the business plan.** The most successful founders were 78 percent more likely to have created a formal business plan before launching their new business. As Yogi Berra famously said, "If you don't know where you're going, you might not get there."
3. **Enlist the help of professional advisors.** The best startups lean on the wisdom and experience of trusted advisors such as accountants and mentors. You can't do everything, so determine where you need advice and assistance and how it could help your business. For example, 54 percent of top-tier founders are more likely to hire an accountant, at least part time.
4. **Embrace the latest marketing tactics.** There was a time when all a small business needed was a Yellow Page ad. No more! Today's top entrepreneurs are masters of websites, social media, forums, and all the latest marketing tactics. This is an area where Millennials have a distinct advantage, having grown up with these new media, but any age founder can quickly master these techniques.
5. **Finally, BALANCE!** Surprisingly, the most successful entrepreneurs were 58 percent more likely to report they commit themselves to family, friends, and personal pursuits. This is a clear indication they are working smarter, not harder.

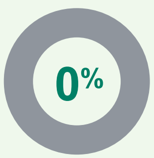
Portrait of a successful startup

The top-tier startups are doing much better than average. They are more profitable, growing faster, and more aggressively hiring. In fact, when we asked how they were doing in terms of reaching the initial goals they set for themselves, 91 percent of the top-tier entrepreneurs reported doing well toward meeting their initial business goals, compared to just 12 percent of the bottom tie.





Some nurturers say they have somewhat to extremely low trust of entrepreneurs' financials



No one has an extremely high level of trust of these financials

Startups' financials

Nurturers say new businesses often struggle with the same three things: growing revenue, adding customers and producing accurate financials. On the accounting question, 36 percent of nurturers say they have a somewhat to extremely low trust of the financials they receive from entrepreneurs.

Wise men (and women)

We were excited to find out what our startup founders had to say. After all, they are the ones doing all the work. They are long on passion and energy. What they lack, however, is experience. For that reason, we chose to survey senior executives who routinely counsel startups. From these executives (average age: 45) we were able to get a balanced perspective of startup life.

It's tough out there. Our nurturers were blunt about how difficult it is to succeed. They report that fully two of five startups eventually fail. Why? The top three mistakes they find founders making are taking on too much debt, not performing enough market research ahead of time, and not controlling costs closely enough.

We asked in what areas they felt entrepreneurs were least prepared?

1. Employee and HR issues
2. The technical aspects of their product or service
3. Marketing

Their answers make sense when you factor in the reality that most founders have little to no previous startup experience and received a business degree in college.

Separating what is important from what is not. The advisors stress three areas founders should focus on to enhance their chances of success: marketing, business networking, and market research. What was surprising is what they felt was not that important: a college degree or previous startup experience.

What startups struggle with. Nurturers say new businesses often struggle with the same three things: growing revenue, adding customers, and producing accurate financials. On the accounting question, 36 percent of nurturers say they have a somewhat to extremely low trust of the financials they receive from entrepreneurs. Absolutely no one said they have an extremely high level of trust of these financials.

To remedy this, most advisors (79 percent) suggest new businesses buy commercial accounting software and use an accountant.

Top three startup myths. These nurturers have seen (and heard) it all from founders. The top three myths they find founders commonly believe? First, they need to keep their business idea a secret. Hardly! The advisors would counsel the founder to tell everyone they can about their new idea to build buzz and momentum. The second myth is that fundraising "won't take long." In fact, raising capital is a grueling and lengthy process. Founders need to budget adequate time into their plans for this important step.

The final myth is subtle. For a new entrepreneur, landing millions of dollars of investment for their business idea can be a huge rush. As indicated in the previous point, it can take months, perhaps years to accomplish and a lot of effort. But those funds are just the beginning and are not equivalent to success, nor do they guarantee success.

Rather, investment capital is the fuel that enables success down the road. A common misperception is to view the securing of significant capital as success itself. When this happens, founders often begin to spend more freely instead of marshaling those resources and investing them.

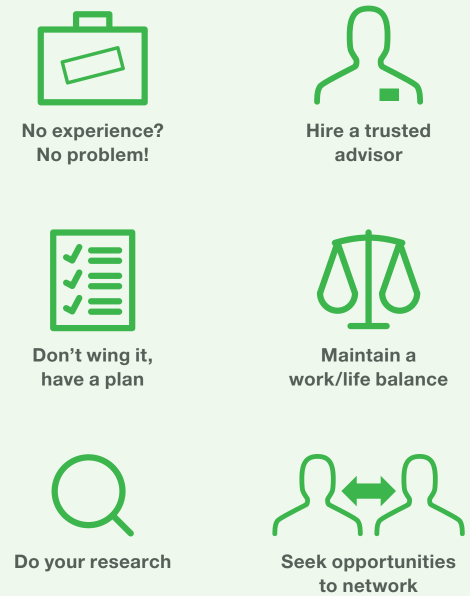
Sage counsel

Sage is a big company with small business roots. We have 30 years of experience supporting 6 million customers worldwide. We started the same way they did: entrepreneurially. That gives us a unique understanding of the opportunities and challenges they face; many of our leaders have firsthand experience as owners or employees at startups and small businesses. We have combined our expertise and the insights provided by this in-depth study to provide a list of recommendations for founders of startups:

- **No experience? No problem!** Do not let the fact you may not have experience in starting a business or running a team at a large company discourage you and prevent you from trying. Not only did most of our survey respondents have no prior startup experience, but neither did their parents.
- **Don’t wing it, have a plan.** One of the first steps for a significant majority of successful entrepreneurs was to create a formal business plan. Doing so helps answer questions you may have for yourself and even come up with new ones you haven’t thought of yet, such as whether you should have a partner. A business plan is also an absolute requirement if you plan to approach a bank, a venture capitalist or any other potential funding sources.
- **Do your research.** Conduct a thorough market analysis: Who are your target customers, your competitors? What trends can you take advantage of? This information can help you set specific objectives that you want to achieve over the course of the first year. Each of those objectives should be built around a narrative and specific numbers you are aiming for, such as revenue and market share.
- **Hire a trusted advisor.** To succeed, you need to make money. To make money, you need to attract new customers. You also need a clear and up-to-date understanding of how much money you’re making, where it’s coming in from, and where it is going. An accountant can not only help with financials, but they can advise you on other business decisions.
- **Seek opportunities to network.** Attend events and educational seminars to increase your knowledge, discuss new concepts, and exchange ideas with your peers. Meet people who share your perspective or who may show you a new one. You may discover how to optimize your business management processes or build your company’s value. Both the education and the networking will pay dividends.
- **Don’t be afraid to break the rules.** Entrepreneurs often have to forge their own path, take the road less traveled, and do it their way. Sometimes it’s necessary to break the rules to grow and succeed.

Recommendations

We have combined our expertise and the insights provided by this in-depth study to provide a list of recommendations for founders of startups.



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