Path to Success: Role of Funding, Revenue, Time to Market

A Nordic to US Comparative

Successful global growth of ICT, Medtech, green tech/sustainability and consumer product innovations (as a result of great creative minds, research, academia and public support) can be the future for the Nordic economies (Denmark, Finland, Iceland, Sweden, Norway).

However, sustainable growth requires more than a product idea. It demands skillful commercialization to drive customer adoption and revenue generation. Funding ultimately comes from profitability but during the 'startup period', investment is needed to build the solution and acquire initial customers. The source of the funding, process for attainment of customer commitments and time to market is often quite different for Nordic compared to US companies and entrepreneurs.

Nordic Innovation Path to Market

In Nordic Region, having a great innovative idea is often followed by a lengthy 'fund raising' period. The entrepreneur spends time (the most important and ir-replaceable resource) building, refining and delivering investor pitches and completing applications for initial public funding.

If attained, the first seed capital is used to finance product development. Since perfecting the product before it is 'customer ready' may take more time than expected, many entrepreneurs need more funding before beta customers (and revenue) are secured.

Each fundraising round can deflect the innovator's focus from market development and potential customer, channel and team acquisition. Therefore, for many Nordic companies, three or more years may be required to move from idea to beta customer acquisition.

Path to Market (Nordic Region):

1. An entrepreneur or innovator within a company has a great idea
2. Fundraising – investor presentation developed, pitched, discussed
3. Product development
4. Additional fundraising for finalization of product and customer acquisition
5. Beta customers and product refinements
6. Fundraising for market entry
7. Revenue generation
8. Profitability from sales / operations or additional fund raising to support growth

After completion of beta, (depending on the level of seed capital previously raised), additional funds may be needed to address the initial customer feedback and for market entry. When the product is deemed 'ready', marketing activities and customer acquisition begins. For most technology solutions, a 6 – 12 month 'sales cycle' then leads to closed 'paying' business.

With the time required for fundraising, product refinements and the sales process, many Nordic companies actually generate revenue four or more years after the idea is conceived.

In rapidly evolving markets (such as ICT, Medtech, greentech and consumer products), changes in customer needs and the entry of new competitors during the four to six years of 'startup', can impact or obliterate the original opportunity. In fact each month between idea and launch impacts success.

If the market need remains viable, then the innovator is ready to 'go to market'. Successful commercialization then requires an expansion of the team, processes and customer/ prospect outreach – which can be costly. Hence this can lead to another investment round.

Due to the time, effort and ongoing funding required over 3-8 years, over 90% of great innovations from the Nordics never make to market. For those that do, more challenges await as they must accelerate revenues quickly and deliver profitability growth to provide investor return.

As Spotify, Angry Birds, Ikea and Opera Software have demonstrated, ongoing success is possible and as demonstrated by Tandberg, Playfish, GiPS, Falanx and others, a lucrative exit can be achieved. However persistence, commercialization skills and patient investors are critical requirements.

US Innovation Path to Market

In the US, speed and timing are often the greatest determining factors for the success of an innovation. By reducing time to market and accelerating customer and revenue attainment, US innovators have achieved a 15-25% (minimum) success rate for bringing new solutions into the market – within 1-2 years from conception of the idea.

Instead of using valuable time seeking initial seed capital, many entrepreneurs and or founders start by 'self-funding' through personal savings, bank loans (including second mortgage against property) or contributions from family. (Ultimately self -funding improves the chances of gaining angel or VC funds - as it demonstrates the founders' belief in the concept and market opportunity).

During the first year of product development, the entrepreneur and team members may share aspects of the new product concept with colleagues and potential customers. Through this, they will gain feedback and 'emotional involvement' or commitment for future use / purchase of the solution.

After validation of the concept (often six to twelve months after 'startup'), the team may seek additional capital to fund product and market development costs. This is often through 'friends, family and fools' – ie investments from people who know the founding team and believe in the concept and market potential. At this point, known angel investors can be approached and crowdsourcing or kickstarter campaigns are launched to the entrepreneurs' network.

Funding received from these efforts will be used to build and beta test the solution or product prototype – leading to customer commitments for continued usage and purchase.

Path to Market (US):

1. An entrepreneur or innovator within a company has a great idea
2. Entrepreneur or team provides initial funding from savings, loans or contacts.
3. Product development and customer feedback
4. "Friends, family and fools" investment sought / crowdfunding or kickstarter campaigns initiated.
5. Beta / initial customer attainment and commitment

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6. Fundraising – investor presentation developed, pitched, discussed – to support broader customer, partner and team acquisition.
7. Market launch
8. Revenue and profitability growth

With customer commitments in place, the innovator is positioned to approach 'institutional investors' ie angel networks or venture capital companies to fund expansion of customers, partners and the team.

While more capital is available from US investors, there are higher requirements for demonstration of customer commitments and sound revenue forecasts. A compelling business plan detailing the expected return through profitability and / or potential exit within 2-3 years of investment is also necessary. If funding is received, the investors will expect strong 100-300% monthly revenue growth and breakeven profitability within a reasonable period after the investment.

If the US the innovator / team does not attain or chooses not to pursue outside funding there is an alternative. Since they have a working solution and customer commitments, they can continue to 'bootstrap'. This may mean a slower pace of growth funded by revenue instead of outside investments. For some entrepreneurs, this 'customer funded' approach is desirable as it can allow them to retain control of the company and share ownership.

Conclusions and Observations:

- Nordic entrepreneurs generally start by seeking outside (public or seed) investor funding than US companies. Less capital is raised through more small funding rounds earlier in the life of the startup.
- There are distinct differences in focus and time spent seeking investment, product development and market feedback. The Nordic entrepreneur tends to put much more time into raising capital and product development (instead of customer / market development). This results in Nordic company's average time to market of 3 -8 years versus 1-3 years in the US.
- US companies accelerate time to market and revenue generation through gaining feedback, validation and customer commitments for the solution during the development process. In today's rapidly changing environment, this has a significant impact on success rates.
- Investor expectations for revenue growth, profitability and time to exit are much greater in the US – more capital is available but at a higher 'price'.
- Success rates for US innovations (and those funded by institutional investors in US) are significantly higher than Nordic entrepreneurial success. On average 15-25% of US startups achieve sustainable growth while the rate of Nordic companies is estimated to be 2-10%.
- Sustainable success requires a great product/solution innovation *and* customer adoption and revenue generation to ultimately fund growth.

Many of the differences between funding, revenue and time to market, along with sustainable growth rates were highlighted in a recent paper published by Next Step, a global consultancy based in Silicon Valley with a branch in Oslo.

From 2010 – 2013, the company studied the investment, revenue and profitability performance of twenty Nordic companies (ICT, medtech, greentech and consumer products) compared to similar US-based companies. Despite gaining more investment funding, the revenues and profitability of the Nordic companies (including mid-size companies Opera Software and Moods of Norway) was significantly lower than the results demonstrated by comparable US companies.

For the white paper describing this study, please contact Next Step Europe on 47 902 30 9802 or Marianne Kuhn on mkuhn@nextstepgrowth.com.

About Next Step

Next Step, a global consultancy based in Silicon Valley with a branch in Oslo, has facilitated commercial growth of hundreds of US, Nordic and European companies through practical sales, marketing and people / process development since 1997. Our team of 40 seasoned professionals with practical experience in sales, marketing, people and process development has delivered revenue and profitability results for Adobe, bMobilized, GiPS, Google, Lily, Opera, Palo Alto Networks, Tandberg, Ticketmaster and many other global enterprises and SMEs since 1997.

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