How Successful Startup Founders Persist To Discover Hockey Stick Growth

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Keeping On the Blade

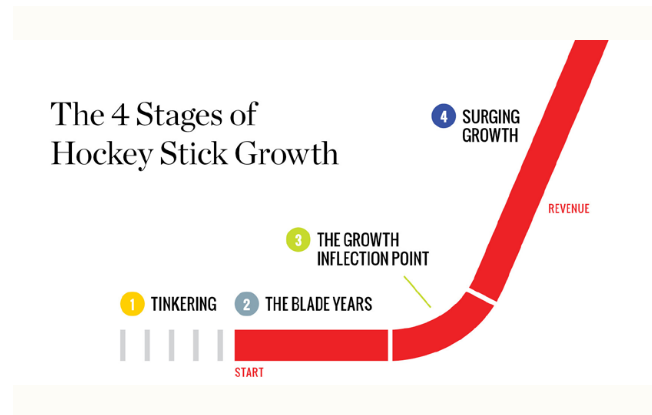
There is a mythology that surrounds startups.

Coverage of the meteoric revenue growth of any number of Silicon Valley startups—most recently Uber, Snapchat, and Instagram—whose hugely ambitious and driven founders had genius ideas and attracted massive amounts of venture funding, has fueled many unrealistic notions. Those notions range from what a good idea looks like and how fast a founder should expect to be able to attract investment capital to and how quickly, even with a really great idea, growth will take off.

If we use unicorns as a guide for our own startups, it appears that success springs up fast and out of the middle of nowhere. This mythology can lead founders to abandon their efforts too soon because they're not seeing rapid revenue growth and can't get funding. They haven't planned in a realistic way for the first three (and often more) years of false starts, missteps, and market resistance which are generally required before growth takes off.

I was curious about how successful startups are actually created so I set out to conduct a study. I interviewed a dozen successful founders in-depth, and 160 others by obtaining details about their first years including revenue growth, funding, the changes that took place in their businesses—

and much more besides. All but nine of all those startups had revenue growth curves shaped like a hockey stick, so hockey stick growth should indeed be the goal for most founders. When studying the startups growth patterns more carefully, each followed a path summarized as four distinct stages:



Stage 1 | **The Tinkering Period:** The tip of the stick, or the time when you first develop and hone your idea before you quit your day job.

Stage 2 | **The Blade Years:** These are the formative years, after founders have fully committed to their idea, when growth can be relatively flat and navigating the unpredictable process of creating a company can be rocky.

Stage 3 | **The Growth Inflection Point:** The crucial point in time right before your business takes off when the founder finally seems to get traction and is connecting the dots.

Stage 4 | **Surging Growth:** Once your company proves that it has potential, you need to optimize that growth and scale up in a sensible way.

Managing the Blade Years is Tricky Business

Only successful startups survive long enough to get to Stage 3 (The Growth Inflection Point) because The Blade Years is such a challenging stage, and often drags out longer than expected. Business author Seth Godin explains it best in his book *The Dip*: "Every new project (or job, or hobby, or company) starts out exciting and fun. Then it gets harder and less fun, until it hits a low point—really hard, and not much fun at all. And then you find yourself asking if the goal is even worth the hassle."

The Blade Years is the stage where many founders give up, often times too soon to make their idea viable. My study shows that the median revenue for successful firms during this stage was $100,716 in year 1, and $555,687 in year 2. That may sound like pretty good progress, but consider that 42 percent of the firms had more than $25,000 in revenue their first year, which means 58 percent had less than that. My own startup, First Research, which provides industry profiles to sales professions, had only $4,500 in revenue the first year and $225,000 the second year—so, in the beginning, it didn't appear to be much of a success. I know from starting First Research and another company, Vertical IQ, and from angel investing, that it's difficult to run, much less grow, a viable company and earn a suitable salary with $225,000 in revenue (or even $500,000) because it costs money to maintain a product, marketing, and sales.

Despite the difficulties of The Blade Years, it is also when a startup's most important work is done. The first big challenge during The Blade Years is discovering a market that is truly excited about your product offering. You can't boil the ocean, so most startups start within a niche and cater explicitly to their particular needs and wants. The second big challenge is figuring out a scalable business model that generates adequate positive cash flow to grow at a solid rate.

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While the two greatest challenges of navigating through The Blade Years were apparent in the study, the data also revealed a consistent formula for success. Seven strategies and specific actions of founders who successfully reached take-off stood out. Here are those strategies:

1 | **They focus on one market, but with open-mindedness and flexibility.** The Segway Scooter was originally created for regular people to make short commutes, but law enforcement personnel and tour groups ended up its best markets. These successful founders focused on a niche market, but also had flexibility in case the one they chose didn't pan out. Packrite, which started out to provide custom box packaging for consumer products companies, later discovered

their best market was other box manufacturers that needed the unique work done for their customers. Another example is how Brian Hamilton started the financial software firm Sageworks with the idea that it would use artificial intelligence to advise small businesses about how to improve their financial picture. He spent the first few years trying to sell to small businesses, only later to discover that CPAs were his best market. This process of "focusing but with flexibility" is easier said than done, because early adopters are hard to find even if you've chosen the best market. So you have to give the process time to either work or not work. Just having a knack for that discernment with patience is a critical skill for founders.

2 | **They are willing to change their business… one tweak at a time.** Pivoting—making a structural course correction, significant change to one's product, market, or business model—has become common lingo lately, partly due to the popularity of the best-selling book, The Lean Startup. Pivoting may be a smart strategy in some circumstances, but I discovered that during The Blade Years founders more often improve things by making tweaks, small changes first instead of significant changes. In The Hockey Stick Research Study, I asked each founder to rate

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on a scale of one to ten how similar their business is today to what they had predicted it would be when first starting, with one being exactly as they'd planned and ten being nothing at all as they'd planned. The average response was 3.7. For example, one founder, Dinesh Wadhwani of ThinkLite, a company that manufactures LED light upgrades that fit into traditional lighting fixtures, told me, "The whole vision was to have any lightbulb that could fit into any fixture and be able to customize it. The concept of what was needed was always the same, but of course the actual product changed a lot."

3 | **They closely assess their entire business model.** Successful founders continuously revisit all aspects of their business—one, two, and three years into their startup journey. The mistake many founders make is that they overanalyze their business model before they have enough information to truly understand what will work, and what won't. This is often before they even start the business. Then they forget about it instead of investigating it when they should, which is after they start. *The Business Model Generation*, by Alexander Osterwalder and Yves Pigneur, offers an easy method to analyze all aspects of a business. The book breaks the business model into a canvas of nine elements: customer segments, value proposition, channels to market, customer relationships, revenue streams, key resources, key activities, key partnerships, and cost structure. For example, successful founders carefully analyze the methods by which they market and sell their products—testing a broad range of methods

ranging from trade shows, cold calling, online SEO, email campaigns, and many others. They are constantly tweaking their price and marketing messages, testing and retesting until they find a formula that works best. They work through this process of assessment for all aspects of the business model.

4 | **They are impatient doers.** You've probably heard the cliché "patience is a virtue," but when it comes to startups, it's not. The most effective founders can flat out get a lot done fast. By completing a lot of activities, they improve their chances of success. If it takes one month to add a product feature instead of three months, you're two months further along. Time is money, and delays are killers of success. Effective founders make decisions fast and get things done fast. They cut out red tape. Money often helps them get things done faster, but I've seen how founders are excellent at convincing people to do favors for them or bartering for services. One example is how Julie Pickens and Mindee Doney, both mothers of small children, built Boogie Wipes, tissue wipes combined with saline. Sure, the idea was fantastic but Julie and Mindee could quickly execute upon their business plan. When starting out they knew very little about the chemistry that

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would be required in combining tissue with saline, so they searched online and found a chemist who could help them. When they had a prototype, they wasted no time hitting several trade events with samples to gain critical feedback. A few months later, they took a risk and ordered $20,000 worth of product (39,000 units) from a manufacturer in Israel. Boogie Wipes went from concept to hitting store shelves in less than
a year. Impressive speed.

5 | They focus on customers—not only growth. Geoffrey Moore's book *Crossing the Chasm* advises that in order to grow your customer base from "early adopters" to "early majority" and "late majority," you should relentlessly focus on existing users' needs and wants. If you cater to them, you'll not improve your product, but you'll benefit from powerful word of mouth. Successful founders from my study did just that. It may seem that spending time with existing customers would slow your growth because it takes time to go back to those who have already paid you money and find out how you can make them even happier with the same product. But ironically, doing so makes founders more successful. For example, Henry Schuck, founder of DiscoverOrg, a hugely successful sales and marketing prospect database, figured out some his most important features from spending a great deal of time with customers. "One of the most important things we need and that we don't see out there are direct-dial phone numbers," he told me. "And so we realized our customers wanted this, and this [would be] a clear differentiator for us."

6 | **They create movements.** Customers desire to attach themselves to a movement—not just a product. Therefore, successful founders are good at selling the bigger problem they are solving, and product demonstrations are secondary to the marketing of their grander vision. My current company, Vertical IQ, provides industry profiles to bankers, but my main job is selling the advantages of excellent call preparation before meeting with customers. Bob Young, the cofounder of multi-billion software firm Red Hat, which sells Linux software, created a movement about the advantages of "open-source" software, that unlike traditional software could be downloaded and edited by programmers. He referred to traditional software firms such as Microsoft as "feudal lords"—helping gain momentum for his movement. People like to be part of something bigger.

7 | **They time receipt of growth capital very well.** Successful founders don't spend lots of money to fuel fast growth until they're pouring it into a high-performance engine. What I mean is that they invest growth capital when they're ready for it—not before and not after. Indeed, this keen sense of timing is also the job of the venture capitalists as much as it is the founders.

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The Startup Genome Project study of 3,200 high-growth startups in the technology sector, which was conducted by a group of researchers from the University of California, Berkeley and Stanford University, including Steven Blank, determined that “74% of high-growth internet startups fail due to premature scaling,” making it the number one reason for failure. You can tell when it’s time to take capital when: a) you have identified a large market; b) each marketing or sales activity is producing or has clear capability to generate a profit; and c) your business’s other systems and processes in place are working well.

Don’t Try to Skate by The Blade Years

Founders should not focus on shortening or avoiding the messy, difficult Blade Years. Instead they should go into this stage prepared for what an unpredictable process creating a company really is, no matter how great a plan they have. Founders need to know going in how little cash they’re likely to make for several years, and that working their own particular way through the challenges of those difficult years is the very essence of what makes an entrepreneur successful—not any magical formula. It is this very struggle and coming out the other side that makes entrepreneurship so rewarding.

Last fall, while attending the Lean Startup Conference in San Francisco, a speaker was explaining that if you don't receive positive feedback during your first 10 to 15 interviews, then you should "pivot" by changing your product and/or business model. (*The Lean Startup* advocates for rapid iteration.) After the speech I told the speaker that upon starting my own business, First Research, I didn't pivot (despite some less than stellar feedback), but instead stuck with my original plan with a few tweaks for several months until I landed paying customers. His response was that I was "perhaps lucky" when eight years later I sold First Research to Dun & Bradstreet for $26 million. To my mind, there's a fine line when it comes to making the right decision relative to when you should make a major pivot, tweak your approach, or throw in the towel. It's a very fine line.

> *"The progress we notice is what creates and sustains our momentum. Speak positively to yourself through the process and always find ways to speak momentum into other peoples' lives as they seek to reach their own goals.*

How long should a founder keep on the blade? Well, it depends upon what your goals are. If you're trying to build the next Instagram, Twitter, Slack, Snapchat, or wiz-bang business unicorn, making pivots could be a smart strategy. But if you're building a niche company that fills a $50 million market or less, sometimes sticking it out during The Blade Years and tweaking until you discover the right formula is the better approach, as was the case with my own startup. Your gut instinct is probably your best guide.

The Five Commonalities

The other interesting takeaway from my study of successful founders was what I uncovered about their personalities. I've found five key commonalities that allow founders to persevere through The Blade Years. They constitute what I consider the entrepreneurial spirit:

1 | An undying curiosity about and sense of joy in the knotty challenges of problem-solving.

2 | A tough skin and a "growth mindset" when encountering failure that enables them to bounce back.

3 | A flexibility of mind about their plans, both for themselves and for their company, that allows and even welcomes the inevitable changes that will be required.

4 | The combination of an inventor's heart and skills with a good mind for management, or the good sense to recognize that they don't have a business-management mind and must partner with someone who does.

5 | An attitude of hope that is not blind to the obstacles, nor delusional or escapist about setbacks, but that fortifies them with a persistently positive outlook about ultimate success.

These characteristics are not only innate. On the contrary, people can teach themselves to think and act more in these ways. Creating and growing a successful startup that achieves hockey stick growth is not the mystical unicorn of the business world that many would like you to believe it is. It can be done by anyone that is willing to embrace the seven principles laid out in this manifesto and embody the five personal characteristics described above. **If you're willing, you can do it.**

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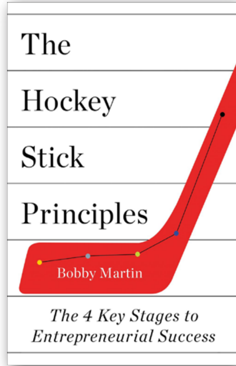

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ABOUT THE AUTHOR | Bobby Martin has cofounded two successful startups, one of which, First Research, a leader in sales intelligence, was sold to Dun & Bradstreet. He's deeply involved with five other startups as an angel investor and advisor. Martin is chairman and cofounder of Vertical IQ, a leading provider of sales research insight for banks. He speaks frequently about entrepreneurship at universities around the U.S. and at corporate events. In 2006, he was the recipient of the *Triangle Business Journal*'s "40 Under 40" Award in Raleigh.

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