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STARTUP AS A NEW BUSINESS LINE

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The work represents the results of the research and political consultations, by representatives of the Institute of Economics with the objective of evaluating the business environment of Ukraine (Annual evaluation of business climate). Determined were the main obstacles for the growth of small and medium business undertakings in the year of 2016, as well as such obstacles for 2017-2018. The main definitions for “startup” notions were given and its main characteristics were defined (creation of new and unique product, that will satisfy most important needs of consumers, quick development, lack of initial financial resources for implementation of the idea and high risks).

Revealed were differences between startup and small business undertakings with regard to the following signs: innovative character, the domain of activities, the trajectory of successful development, growth rate, scalability of business model, influence upon the market, infrastructure, sources of investment and the scope of activities. Classification of start ups was characterized and represented. Indicated were the startup stages: pre-see stage, seed-stage, prototype, operational prototype, alpha-version of the project (product), closed beta-version of the project (product), public beta-version of the project (product), startup stage, growth stage, extension stage, output stage. Ways of investment for start up-projects were revealed. 10 most promising start ups in Ukraine were listed. Some of common problems with startup-projects in Ukraine were determined.

Швець Г.О. Стартап як новий напрямок підприємництва

В роботі представлено результати дослідження представниками Інституту економіки досліджень та політичних консультацій у напрямку оцінки бізнес-середовища України («Щорічна оцінка ділового клімату»). Було визначено основні перешкоди для зростання малого та середнього підприємництва у 2016 році та перешкоди у підприємницькій діяльності на 2017-2018 рр. Наведено визначення поняття «стартап» та визначено основні його характеристики (створення нового та унікального продукту, який буде задовольняти найважливіші потреби споживачів; швидкий розвиток; нестача початкових фінансових ресурсів для втілення ідеї в життя; великі ризики). Розкрито відмінності між стартапом та малим підприємництвом за такими ознаками: інноваційність, сфера діяльності, траєкторія успішного розвитку, швидкість зростання, здатність до масштабованості бізнес-моделі, вплив на ринок, інфраструктура, джерела інвестування, масштаб діяльності. Представлено та охарактеризовано класифікацію стартапів. Наведено стадії розвитку стартапу: стадія pre-see, seed стадія, прототип, робочий прототип, альфа-версія проекту (продукту), закрита бета-версія проекту (продукту), публічна бета-версія проекту (продукту), startup стадія, стадія зростання, стадія розширення, стадія виходу. Розкрито способи інвестування стартап-проектів. Перераховано десять найбільш перспективних стартапів в Україні. Визначено деякі проблеми стартап-проектів в Україні.

Setting up the problem. Contemporary political and economic processes, occurring in the world and particularly in Ukraine require a search for new ways of business undertaking by representatives of all business spheres. So, the world trend is oriented on innovative business undertaking, that could be competitive and capable of developing under crisis conditions. Thus, it is startup that combines all necessary conditions of small business enterprising, adapted to contemporary conditions of market relations.

The analysis of recent researches and publications. Investigations of theoretical and practical aspects of startups remain in initial stage, as this phenomenon is still new in business environment. Still, the works of such renowned scholars like N.I. Sytnyk [2], L.I. Gladka, E.O. Kolesnik [3], O.V. Kornukh, L.V. Makchanko [5], E. Chazov [6] et al. were dedicated to such problem.

The objective of the article is in defining peculiarities and characteristics of startup as a new business line.

Representation of the main material. Small and medium business undertakings play a prominent role in economic development of the country. That is why a possibility of overcoming the crisis in the country’s economy depends upon the degree of development of business links between enterprises and constant improving of enterprising environment. In 2017 the Institute of Economic Research and Political Consultations (IERPC) published the results of investigations, carried out by its researchers for evaluation of business environment in Ukraine (“Annual business climate evaluation”). The researchers questioned 1,851 representatives of small and medium business, particularly, heads of 1,324 enterprises- legal persons and 527 physical persons- private business undertakers from all regions of Ukraine, except occupied Crimea and Sevastopol occupied territories of Donetsk and Lugansk regions.

Thus, the researchers defined the main obstacles for growth of small and medium business undertakings in the year of 2016 (see Fig.1.) and such obstacles for the period of 2017-2018 (see Fig. 2.)

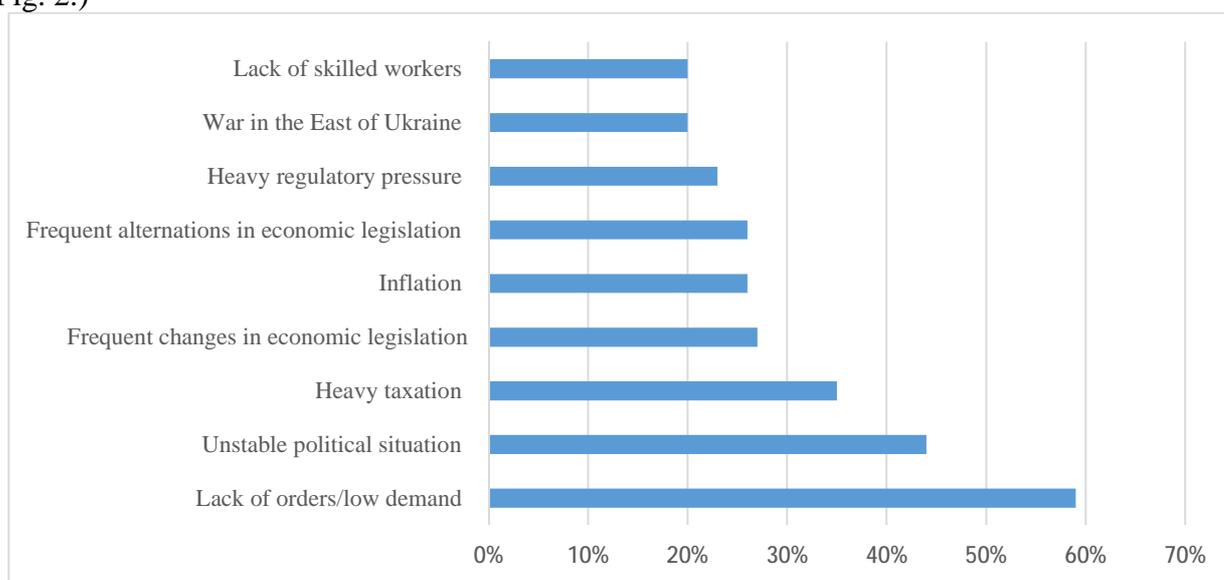


Fig.1. The main obstacles for growth of small and medium business undertakings in the year of 2016 [1].

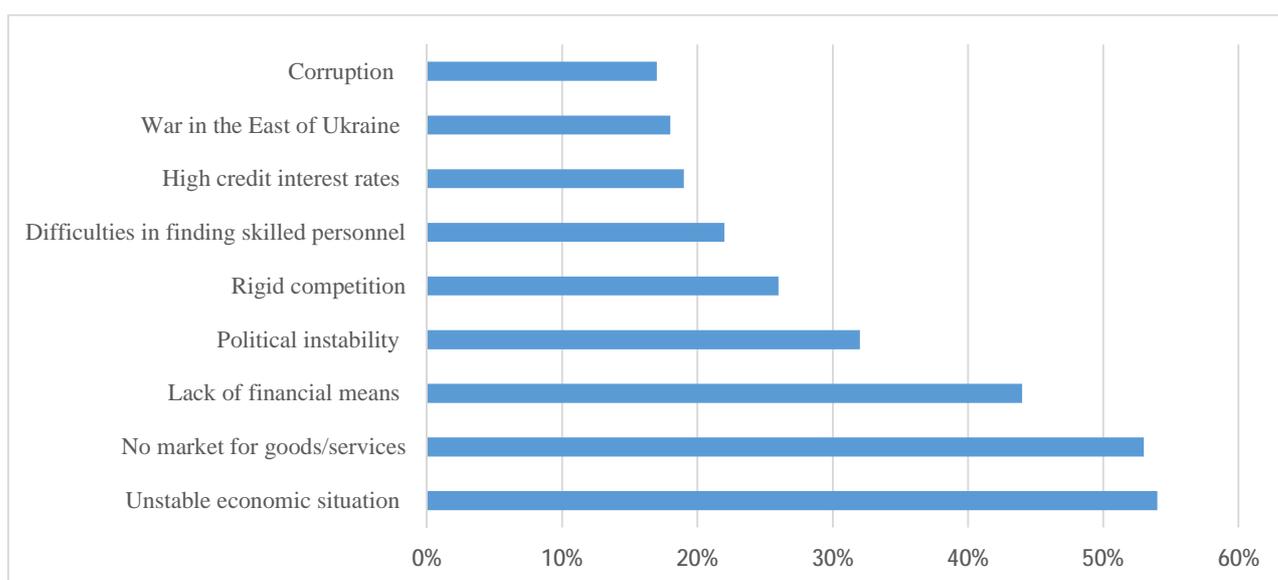


Fig.2. Obstacles in business activities for 2017-2018 pp. [1]

Thus, the data, represented in Fig.1, 2, prove that the situation in the business domain is quite complicated now and has major negative factors of influence. It shows that private business undertakers have to seek new ways and methods of business activities under hard political and economic conditions. For this reason, nowadays, both in Ukraine and in the World innovative business ideas are implemented, adapted to the crisis conditions. Such business lines like start ups begin to spring up as a stake on innovative approach to development of business undertakings. Then, we will analyze in details the essence and peculiarities of startup. Table 1. summarizes the notion of start up, from points of view of different scholars.

So, the notion of startup is frequently associated with a new idea, promotion of an idea in the market, strategy of company's development and limited resources. Newly created companies, i.e. startups possess the following peculiarities: [3]

- creation of new and unique product to satisfy most important consumers' needs;
- quick development (start ups, usually, are created in 3-4 months , except advanced technological startups, requiring more time for their implementation);
- scarce initial financial resources for implementation of the idea (in most cases initial investments act as a starting capital for founders of the project);
- high risks (according to statistical data, nearly 70% of all startups do not survive their first year in the market, from the remaining part 40% do not last until the company is two years old. With regard to the essence of startup the following difference between start up and usual business undertaking is summarized below (table 2).

Table 1 - "Startup". Definitions [2]

Author	Definitions of "startup"
S. Blank, B. Dorf	Startup-is a temporary structure, carrying out a search for renewable, profitable and scaled business model.
E. Reece	Startup company-any newly created organization, set up for creation of a new product in conditions of extreme uncertainty.
D. Ponomaryov	Startup-is a form of innovative activity. It's a company having short history of operational activities, that remains in the stage of development or investigation of perspective markets
L. Reiner	Startup- is a company, that normally is engaged in designing and implementing innovative development processes, validization and investigation of key markets.
Administration of small business of the USA	Start up- is business, which usually is technologically oriented and possesses high development potential.
P. Graham	Startup is a company, designed for quick expansion.
A. Evseychev	Startup- is a process of realization of an idea within a short period and, as a rule, at limited resources of an uncommon project, having innovative character.

Startups are classified, as a rule, according to several signs, for instance, according to product's characteristics and product's distribution market. The following startup types are discerned: [4]

1. "Successful replicas". This group comprises numerous domestic projects, that are to certain extent replicas (clones) of foreign projects, social networks, primarily. Such replicas proved to be very perspective.
2. "Aggressive aliens" This group combines startups, oriented on invading of a certain market segment and ousting competing companies. Implementation of the product can be carried out due to its exceptional price advantage.

Table 2 - Comparison of startups and small business enterprises [2]

Characteristic	Startup	Small business enterprise
Innovative character	Established for realization of new ideas	Established both for realization of new ideas and on copying already existing ideas.
Sphere of activity	IT-products, high tech products	Services, distribution, manufacturing
Trajectory of successful development	Oriented on short term existence, success is attributed to transition into a big company, sale or merging, or public tock floatation.	Oriented on long term existence in nearly unchanged form, success is not attributed to sale or merging
Growth rate	High	Not high
Capability of scaled business model	High	Not high
Influence on the market	Essential	Insignificant
Infrastructure	Business incubators, business accelerators, startup schools, techno-parks	Business centres, business incubators, techno-parks, leasing centres, business supporting funds, investment funds, innovations funds, information and consulting agencies et al. .
Sources of investment	Own means, business angels, venture funds, seed funds, crowd funding	Own financial means, bank credits, business angels
Activity scale	International	Mostly local or regional

3. “Dark horses” Such name can be attributed to the companies, whose prospects remain unclear, despite their innovative character. On the one hand the founders of such startups run high risks, trying to promote them, on the other hand colossal profits are guaranteed for them in case of success. N.I. Sytnyk, suggest the following classification of start ups in the published works: [2]

1. Degree of startup product novelty-startups, that create entirely innovative products, or incrementally (upgrading) innovative products.

2. Branch of activity – IT startups, start ups in the sphere of robotics, electronics, computer hardware, power engineering, ecology, medicine etc.

3. Key customers– start ups, the product of which is designated for physical or legal persons.

4. Needs, for satisfaction of which start ups are oriented on- needs of legal and physical persons, technical requirements of the existing market and technical requirements of a new market.

5. Links with the existing companies-independent and affiliated startups.

Startup, as any enterprise or project has its own life cycle: (development stages) –pre-seed stage, seed-stage, prototype, alpha version of project (Product), closed beta-version of project (product), public beta-version of project (product), startup sage, growth stage, expansion stage, exit stage.

Table 3 summarizes the characteristics of development start up stages.

Financial means are essential for realization of startup projects. There exist different forms and means of obtaining investments for financing of startup projects. The following possible methods of startup projects financing are singled out:

1. Franchising For “business replica” type already worked out business process is picked out, with detailed instructions, regarding sales, well known trade mark (company’s brand), thus

saving advertising expenses. Franchising model is the easiest way of obtaining a bank credit for a startup.

2. Venture funds. Investment is carried out when the fund appears to be interested in realization of the project. Venture funds are eager to participate in business activities.

3. Contests(tenders). Not only winning projects, but also projects that some investors liked obtain financing.

4. Business-angel. Invests money into innovative projects at the stage of setting up an enterprises in exchange of a share in the capital and reimbursement of investments. They invest a part of their own costs into innovative companies, supporting their technical and commercial development.

5. Crowd funding. Financing is carried out on the basis of collective labour of people, who agreed to combine their money or other resources, in most cases via Internet, to support efforts of other people or organizations.

6. 'Smart' money. An investor provides not only money, but also knowledge, experience, business links and understanding of the market and has a necessary level of competence in the branch.

Table 3 - Stages of startup development [5]

Start up stage	Description
Pre - STARTUP stage	
Pre-seed stage	There exists an idea and it has been clearly determined what buyers need, though there is not a clear understanding of how the idea should technically implemented and promoted, so that it should earn money, or there is but a general idea.
Seed stage	The market is investigated, startup plan is compiled, requirements specification is compiled and executed, a prototype is created and tested, search for first investors and preparatory work goes on for the project's start up.
Prototype	Compilation of requirement specifications and interfaces design
Operational prototype	Creation of the product or the project with the main functions
Alpha version of the project (product)	The project (product) is ready, but has not been tested yet. Some minor corrections are introduced into the interface during testing, which were omitted at the design stage and the stage of developing requirement specifications. Negotiations with first potential customers go are conducted.
Closed beta –stage of the project (product)	Innovative project looks close to the designed by startupper, small number of users, invited by the founders appear with the objective of testing service and reveal possible errors, drawbacks or modifications.
Public beta-version of the project (product)	Relatively active invitation of customers, who need the services, offered by the project goes on. Very often the public beta-version is done by distributing a limited number of invitations. Agreements with first customers are also concluded.
Start up of the project (product's manufacturing)	
Startup stage	This is a crucial stage for any projects –early and late start up stage and initial operating stage.
Post -STARTUP stage	
Growth stage	The startup occupies a regular place in the market, moving steadily towards finding a niche, specified at the stage of business plan compilation.
Expansion stage	The startup has approached execution of the business plan in the original specified market and begins to extend its boundaries, by means of occupying other markets. The company may expand its business both unilaterally and by purchasing other enterprises.
Exit stage	Exit from business activity (partial or complete) by business-angels and venture investors, who previously participated in financing of the startup. Such exit can be carried out by selling the company to strategic investors, by stock floatation at the stock market, (an outlet to IPO) and by private stock floatation (sales of the enterprise's shares. Venture funds finance promising startups, that at the initial growth stage exhibit quick growth and slow down prior to the exit stage, as compared to the previous stages, although the business itself becomes more stable. Also, one of the variants of startupper's or investors' exit can be business cessation or enterprise's bankruptcy

7. Franchising For “business replica” type already worked out business process is picked out, with detailed instructions, regarding sales, well known trade mark (company’s brand), thus saving advertising expenses. Franchising model is the easiest way of obtaining a bank credit for a startup.

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12. ‘Smart’ money. An investor provides not only money, but also knowledge, experience, business links and understanding of the market and has a necessary level of competence in the branch.

13.“3Fs” Model. “3 Fs-model, i.e. family, friends and fools specifies that at the stage of setting up an own business a beginner-businessman has to ask financial support from his friends, relatives, acquaintances.

14.Technical investor. Here big amounts are invested into a startup, which presume obtaining a steady income, control over the property and participation in management of the object of investment.

15.Subsidizing Subsidies, provided by state are a financial support by state organization, due to which the recipient obtains allowances (profits). For this a very fine idea, implemented in a business plan is indispensable.

16. Initial Public Offer (IPO). Initial offering of shares is one of the methods of obtaining external investments. IPO is an offer , which a company is giving for all investors concerned. [5]

‘AIN. UA’ a Ukrainian portal compiled in 2016 the following rating list of the best domestic start ups. Experts selected 10 most promising startups, originated after 2014, evaluate for their successful deeds, participation in well-known accelerators, construction of plants of their own, explosive growth and big investments [3,5]:

1. Sixa – a service for creation of a virtual computer in a cloud.
2. eTachki – online auction for vintage cars.
3. Mobalytics – analytical platform for gamers.
4. People.ai – a service for analysis of sales managers’ work.
5. Allset – a service for ordering food and reservation of tables in restaurants.
6. Hideez – hardware-project, developing a smart key strap and bracelet.
7. AjaxSystems – a project of a “smart” house.
8. SolarGaps –“smart” louvers, accumulating the sun energy.
9. Wishround – a service for on-line wishes.
10. LifeTracker – II-service for improvement of productivity.

Development of the market of startups in Ukraine is hampered by the existing legislation, that does not provide opportunities for development of startup projects. Irrational taxation system and imperfection of the laws regarding small and medium business decelerate the market development and make its open financing impossible. Among the prospects of the market development it should be noted that the Ukrainian on-line market is not oversaturated in any of its segments, it giving domestic companies an opportunity to occupy vacant niches and wage successful competitive activities. [6]

Conclusions. So, the investigation of peculiarities of startup gives us an opportunity to arrive at a conclusion that startup is a contemporary and rather efficient business line, possible of

existing under complicated business conditions. Taking into account the fact that startup is based on innovations such enterprises have good prospects in Ukraine. Development of startups in Ukraine remains in the formation stage and does have obstacles, still quick growth of the number of domestic startups confirm a possibility of their entering international markets.

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Ключові слова: стартап, підприємництво, інновації, класифікація, фінансування, інвестування

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