

TO AVOID STARTUP BUSINESS FAILURE THROUGH ENTREPRENEURSHIP, CUSTOMER DEVELOPMENT, AND DESIGN THINKING APPROACH

By Dr. H. Bambang Dwi Hartono, M.Si
Head of Management Department
Graduate School of UHAMKA University



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SEPTEMBER, 22 - 25th, 2017

BANGKOK - PATTAYA TOUR & STUDY



[INTERNATIONAL SEMINAR]
SRIPATUM UNIVERSITY
BANGKOK THAILAND
September, 25 th 2017

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I. Background of Study

This study is based on the phenomenon which is that many entrepreneurs, either new or existing, of either small, medium, or large-sized level, experience business failure. Many new entrepreneurs slowly realize that their business is wasting money and leads to bankruptcy.

Ministry of Communication and Informatics of Republic of Indonesia has launched a program called *Gerakan Nasional 1.000 Startup Digital*. The program launched on 17 June 2016 is expected to result in 1,000 startup businesses in Indonesia in 2020.

Since its launching, there are 16,500 registered participants who are from six cities in Indonesia. In the first stage were 2,267 participants selected to continue to the next stage. After assessment on ideas and formulated problems to solve, only 41 participants were successfully chosen as prospective startup business. It indicates that most of startup businesses have not been able to both formulate creative and innovative ideas and find required business solutions.

The objective of this study is to explain how a startup business does not fail while operating. Besides, it is also aimed to explain the importance of entrepreneurship approach, customer development approach, and design thinking approach for providing a guideline, skills, and effective belief to particularly new entrepreneurs to make their business successful.

Phenomenon of startup business development

Visiting Silicon Valley, the United States of America, on behalf of the government of Indonesia, Ministry of Communication and Informatics launched a program, “*Gerakan Nasional 1.000 Startup Digital*” which is expected to result in 1,000 startup businesses in Indonesia in 2020.

Through this program it is projected that economical value of the 1,000 startup business can reach US\$ 10 billion that is equal to 130 zillion rupiahs. The projection is not overstating since it is considered that a successful new startup business has a considerable high value as shown in Figure 1.

There is a business classified into type C, known as “Startup” that has been able to give big values to consumers although it just operated for two to three years. For example, Instagram which has only a dozen of employees and is able to serve hundreds of users throughout the world is finally bought by Facebook for \$ 1 billion. Compared to a business of type A, a business which has been operated for years, Instagram has higher value.

Differently, both “FoodPanda” and “YESBOSS which are startup business closed their business in Indonesia since they cannot compete with “Gojek” which has “Go Food” product.

In accordance with the background of the study, it is concluded that a startup of business which is able to produce business solution will keep successful, whereas the business high is not able to create brilliant ideas and formulate business solution needed by consumers will fail. Therefore, effective entrepreneurial skills and customer development approach are required to both examine and validate products or services to offer to consumers.

II. Startup

Eric Ries, the writer of *The Lean Startup*, stated, “A startup is a human institution designed to deliver a new product or service under conditions of extreme uncertainty. Startups are designed for the situations that cannot be modeled, are not clear-cut, and where the risk is not necessarily large - it's just not yet known”.

According to Steve Blank (2012), startup is an organization formed to search for a repeatable and scalable business model.

Another definition of startup is proposed by Paul Graham, a founder of one of the best startup accelerators in the world. He stated, “A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology, or take venture funding, or have some sort of “exit.” The only essential thing is growth. Everything else we associate with startups follows from growth”

Based on those definitions, it is said that start up is a new business which is designed for fast growing.

III. Concept of Entrepreneurship, Customer Discovery and Design Thinking

a. Creativity and Entrepreneurship

Creativity is an attitude that leads to innovation, new method, and key formula for successful entrepreneurship. Nowadays, entrepreneurs is facing a future which is always under certainty. It is a fact that in even the worst environment creative people are able to solve problems to catch any opportunities, to adapt to the environment, and to utilize it in innovative ways.

Innovation is how a company or person generates money from creativity (Higgins: 1994). The process of producing new things is known as origination. Something which is original refers to that is new and previously not available. The creativity is defined as the process of creating new and valuable things. There are many ideas and concepts which are not original, but some of them are not valuable so that they cannot be considered creative. Thus, a creation refers to original and valuable thing.

Moreover, innovation is defined as a process of creating new things which give values to a person, a group of people, an organization, and society. Therefore, an innovation is a creation which has high value. Creative people are those who have high curiosity and compassion toward their surroundings. They are open to receive any ideas by perceiving that the ideas are useful for their early consideration. Creative people also have high tolerance toward plurality.

The formulation of entrepreneurship concept can be found in some literature such as Dolinger (1999) stating that it is universally characterized by an order of individual values involving skills to utilize opportunity and to take risk, enabling basic managerial skills, and drive for creativity, innovation and further vision creation. An entrepreneur is actually a person who can be a pioneer in developing ideas into products and realizing dreams and always sees opportunity for creation and new ideas execution (Alen, 1999)

Emergence of Innovation and Creativity

In addition to brilliant ideas and dreams, creativity is an essential package for successful leader both in private sectors and public sectors. More importantly, for an entrepreneur, creativity is a resource which is more difficult to immitate than physical resources such as money.

Competitiveness ability of a company or organization is influenced by the existence of continuous innovation which is always produced by human resources, either individual or group.

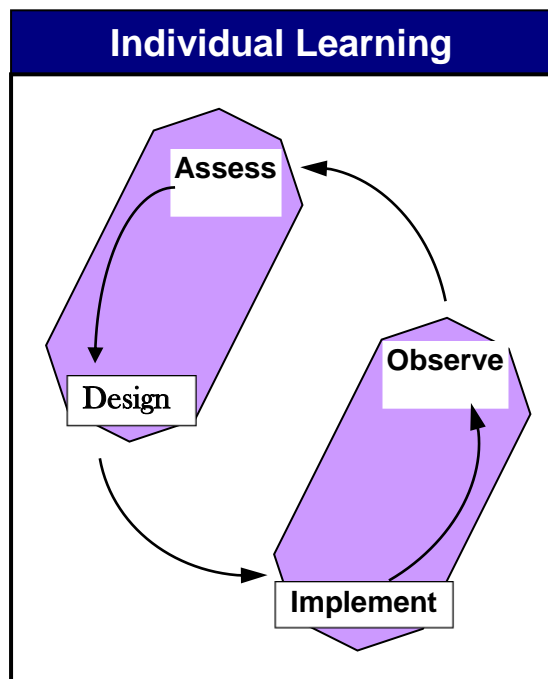
Nonaka and Takeuchi (1995) proposed that knowledge has three definitions which are (1) beliefs dan commitment, (2) action dan (3) meaning. The success or failure of an organization depends on the leader's belief in the subordinates and the subordinates' belief in the leader in managing the organization. If they have the same belief in developing the organization, the next stage is how they do their actions and finally give meanings to the achieved development.

Furthermore, Nonaka and Takeuchi (1995) classified knowledge into two categories which are tacit knowledge and explicit knowledge. Tacit knowledge is the result of personal experiences, and it is valid here and now and is practical. While explicit knowledge is based on mind, is valid anywhere and everywhere, and is digital knowledge. The combination of those knowledge leads to the emergence of creativity and innovation.

Strategy of Creativity and Innovation Development

In creativity development, there are three influencing components, which are (1) expertise, (2) creative thinking skills, and (3) motivation (Waring, 1996). Entrepreneurship in developing business is highly dependent on the types of business and accompanying characteristics which involve: (1) Administrative Entrepreneur, (2) Performer, (3) Integrator, dan (4) Entrepreneur.

To have an organization able to create knowledge, all individuals in the organization must be bale to change their mindset. Covey (1993) proposing the way to change mindset through implementation of individual habits, known as The Seven Habits of Highly Effective People; the habits involve: (1) be proactive, (2) begin with the end in mind, (3) put first things first, (4) think win-win, (5) seek first to understand, then to be understood, (6) synergize, sharpen the saw



Individual learning model (Figure) can be a strategic model for emerging individuals with high competence to be great entrepreneurs who can create creativity and innovation continuously.

The model explains how an individual can have skills to develop creativity and innovation through the following stages: (Kofman, 1993) and (kim, 1993) (1) consistent observation on the environment which is relevant to business, (2) serious assessment based on the observation result to find out prioritized solutions, (3) implementation of solution options in the form of design, and (4) trial of the solution options for either positive or negative responses. The stages are repeated consistently so

that the business can be adjusted to the behavior and interest of consumers.

IV. Customer Development

To learn from field and to find mistakes in a precise and efficient way is through customer development approach. Steve Blank and Bob Dorf, in *The Startup Owner's Manual* (2012), explained some advantages of customer development, involving:

- a. to seek a precise business model before the execution
- b. to provide framework and stages which enable new entrepreneurs to start their business immediately with minimum capital and to find the precise business model based on learning from mistakes

- c. Not to either extend the chain of planning or complicate the execution, but to accelerate the creation of startup business without big capital due to some mistakes

In brief, it is concluded that customer development is a systematic framework for: (1) finding and validating product markets, (2) developing precise features of product to meet the customer needs, (3) testing the right method for discovering customers, and (4) utilizing the right resources to increase the business scale.

Model of customer development includes four stages which are: (1) customer discovery, (2) customer validation, (3) customer creation, and (4) company building.

Customer discovery

Founders of business will do research on customer needs of a product. Knowing the needs of customers, they translate the needs to hypothesis of business model, and they create an initial product.

Customer validation

The hypothesis are tested and customer interest is validated through initial order or product use. If there is not any interest of customer discovered, the startup process is repeated.

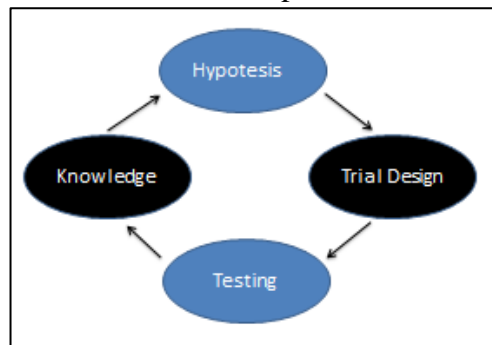
Customer creation

Market system of the products which are worth selling and successfully selected in the two previous stages will be developed, and the existing business scale will be increased.

Company building

Following the three stages, transition of startup model to bigger model with function of departments is performed.

The four stages are a strategy of developing startup business. Before creating and developing a startup business, it is important to understand customers. To discover customer is also done before finding fund, marketing etc. entrepreneurs must know whether or not their products will attract customers. If the products are not accepted



in market, to change into better business ideas or pivot is suggested.

Implementing customer development approach, a startup business can grow faster



because the launched products and services are considered valid based on the cycle as shown in the figure. The cycle includes: (1) hypothesis of product or service validity, (2) trial design, (3) field testing, and (4) knowledge creation from testing result for startup managers to execute and develop the business or to change the strategy.

Referring to personal experience, for example, PopCa, a business of fresh drink that uses basic material from CNI, is shown in figure. Firstly, people like the product

due to the various flavoured and bubble topping offered. A test was conducted to check if the product is truly favorite of customers and if it is affordable. The result shows that most of people like PopCa. Because the test location is a campus with 6,000 students, the business can sell about 100 cups per day.

The belief to decide if the business mentioned is valid or not was based on the test of hypothesis through the following steps:

1. to go outside the building for experiencing business failure and ensuring the customer needs
2. to be willing to test hypothesis in front of customers
3. to design experiments carefully
4. to get signal for the next process based on the first test, not to be precise
5. to have required knowledge to develop
6. to know the initial simple test which can be done
7. to know how to design an experiment for executing the simple test

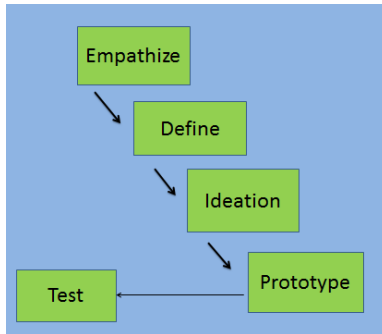
Another personal experience shows a business of coffee shop, namely “leora Coffee” will never develop if it does not implement customer development strategy. When the number of customer decreases, design thinking is necessary to create new innovation, which is in accordance with the consumer needs, for both product and marketing strategy. In this case, the design thinking involves:

1. Required facilities for a café such as sport equipment like tennis table and bilyard. The equipment offers amusement to customers.
2. Coffee products which become favourites such as iced coffee. Innovation is necessary to make ice cube from coffee so that the taste of coffee remains good.

There are many failed startup businesses, either of products or services. The failure happens since the entrepreneurs do not test if their products or services are truly valid or not. For example, Aqua flash, alhami, salami mie gaga, Mie ABC etc. It is only Mie Sedp which is able to stay competitive with Indofood products. Other examples of business failure are FoodPanda and YessBoss; they are not valid.

Another essential approach to avoid startup business failure is design thinking.

V. Design Thinking



According to Hendry Ramdhan, a writer of *Menjadi Entrepreneur Startup 2016*, design thinking is a process to generate innovation by focusing on individual, and the result is product or service that rightly becomes solutions needed by society. Therefore, design thinking approach is appropriate for those who need brilliant ideas for developing startup business. Figure 3 represents the stages of design thinking strategy before creating startup business

Based on the figure, the first stage of design thinking is to empathize, that is understanding the needs of target market. Through this stage an entrepreneur can create a product which is rightly needed by many people. The second stage is to discover point of view. It is followed by creating prototype or model based on the business ideas. The last stage is to test the product to know the response of customers for improvement.

Through the implementation of design thinking approach, “Airbnb” company which is a startup company providing rooms for rent throughout the world was stagnant in 2009; then it increased to \$ 400 per week. This occurs because the company was willing to plunge into the real world to find problems and solutions. This is the point of design thinking. The successful implementation of the approach results in successful startup business. For example is redesigning experience of the use of sport equipment for professional athletes, experience of taxi order for professional executives, and experience of taking ojek.

Based on the explanation above, it is concluded that running a business or startup business will lead to continuous lost because of waste of money; this happens because the created products or services are not valid and are not business solutions needed by consumers. Therefore, it suggested that new entrepreneurs who will start their business: (1) study the concept and practice of entrepreneurial values in the real world, (2) implement customer development approach and its stages and practice the cycle to test the validity of their products and services, and (3) implement design thinking model to find business solutions which are rightly needed and test the responses of prospective customers.

Conclusion:

1. A business without continuous creativity and innovation will experience failure since it is not in line with the change of consumer behavior; approach of entrepreneurial values is required.
2. A business which is designed inside the building without any view of problems in the real world outside will waste money and experience failure because the right business solutions are not found. To avoid the failure, customer development is needed.

3. A business which is operated without empathy process as its initial stage in creating business ideas will fail.

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