Title: Reference Customers – An Important Step towards Successful Business

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Abstract

**Aim:** The first customer is important because that it’s in many cases the only objective evidence that your product or service works in real life and that someone is willing to pay for it. The first customer is your first reference.

The aim of this study is to:
- Investigate how 7 start-up companies in the ICT-business developed reference.
- Establishing recommendations on what to focus on when creating reference customers.
- Present complementary recommendations for start-up companies regarding important factors, besides those investigated against the theory, which have been discovered to be important when building a successful company.

**Method:** The method in this study is a combination of a case study and cross-sectional study with qualitative data. The questions in the interviews were predefined and complemented with open ended questions according to the answers on the pre-defined questions. The data collected, the answers, were written down, summarized and analyzed regarding whether they did or did not support the theoretical statements investigated. A theoretical statement could be supported or not supported, partially or strongly

**Result & Conclusions:** The access to a professional network and good social skills are most important when establishing the first reference. Business skills can be developed during the process but the recommendation is to acquire or secure them as soon as possible. How to achieve the desired states has also been concluded.
**Suggestions for future research:** The largest limitation is the sample size of the data. Less than 10 companies were interviewed and some of the suggested statements can’t be significantly either confirmed or deferred. The study was also limited to one round of interviews. A study, with two rounds of interviews and a larger set of companies interviewed is suggested for further research. An extended study could also cover companies that didn’t survive the IT crash of 2000 and investigate if the suggested parameters and strategies were present and deployed or implemented.

**Contribution of the thesis:** The investigation has verified the importance of networks, customer type (brand name) and social capital when establishing a reference. It has also showed that the skills needed to develop a business doesn’t need to be present when company is established since it can be acquired and secured during the development of the first reference. It has also contributed with a set of recommendation for entrepreneurs in general not only regarding the establishment of reference customers where the most important recommendation is to build and maintain the personal and professional networks.

**Keywords**
Reference Customer, Networks, Social Capital, Brand Name, Business Development, Start-up.
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1 Introduction

This part introduces the subject and why it is interesting to investigate it. It also states the research questions and the aim of the study.

1.1 Background

No idea, no matter how great it is, will be sold without some kind of marketing. Marketing is not the only function you’ll need to sell your idea. You need to have sales, distribution (if needed) and other functions and processes available. But without the knowledge about you and your product, and someone to back your arguments, you’ll have quite a reduced chance of making business and grow as a company. This is where references become important, especially for a new, small, unknown, start-up company.

Many companies start up as an idea that is sold into one or maybe two first customers, often from within the personal network of the entrepreneur (Ostgaard and Birley, 1996). The first customer is important because that it’s in many cases the only objective evidence that your idea, knowledge, skill or whatever is the core of your business idea is based on, works in real life and is not a bunch of fancy arguments or a theoretical framework. The first customer is your first reference (Ruokolainen and Igel, 2004). The first (satisfied) customers are therefore important because they are the objective evidence that the product or service has been performing satisfactory and have contributed to the business. The use of a customer as reference will build on the trust necessary for the subsequent customers to do business since trust is considered to be “…the willingness to engage in a transaction in the absence of adequate safeguards” (Blomqvist, 1997).

Schifferman (2005) goes even further and states that referrals are the “lifeblood” for sales.

More than 40% of small companies, including start-up’s, have difficulties in sales and marketing according to Huang and Brown (1999). Technical entrepreneurs tend to look very closely to the technical aspects of the business but forget to look at the commercial questions (Ruokolainen, 2008, Huang and Brown, 1999). Ruokolainen and Igel (2004)
stress the importance of finding tools and guidelines that will help young businesses to commercialize their products and launch to the general market. With a failure rate of close to 50% within the first eight years of business (Ruokolainen, 2008) it is obvious that this help may be the difference between success and foreclosure.

When the companies in the study of Ruokolainen (2005) were to point out the single most important past event of the company 41% of them stated that it was the first reference. The companies were also asked what the reason for them being able to gain new customers was and then 55% of them answered that it was because of the credibility created by the first reference. This strongly points toward that the first reference customer is very important both as evidence as well as direct support when expanding the business and is therefore the focus of the investigations.

The ICT, Information Communication Technology, industry is young and by many perceived not to be that mature. The IT-crash in the beginning of the twenty-first century has also made investors and customers a little less prone to jump onto every new idea so a proven ability, objective evidence in the shape of a satisfied customer, becomes even more important. The Uppsala region in Sweden has more than 50 small and medium sized ICT companies and about 30 of them are organized in the ICT Uppsala network which work for marketing the ICT competence in the network as well as collaborating with the local government and Uppsala University (ICT Uppsala website).

The study investigates how ICT companies in the Uppsala region have used or uses reference customers, compare the strategies deployed against the theoretical findings and identify significant factors for success in order to improve the chances of long term business success.
1.2 Problem and aim / Research Question

All ideas and innovations are in some senses different but in many aspects the problems faced for new businesses are quite similar. A huge mistake is to see your own business idea so unique that you decide that you need to have everything tailor-made to fit. This will be expensive and you risk running into well known problems and make mistakes you could have avoided if you had been looking for best practice. The key for success is to re-use and further develop all the good ideas you come across, cross-fertilize, and adjust them to fit your needs, without breaking any laws.

The aim of this study is to investigate how 7 new, start-up, companies in the ICT business have developed referrals and reference customers and how these references have contributed to the success and subsequent business for the companies as well as identifying other significant factors that made them able to continue to grow.

The questions I will answer are:

- Are reference customers important for sustainable business?

- Are the scientific findings and recommendations applicable to the selected research objects, IT companies in the Uppsala region?

- Are there any similarities in the recommendations from the business leaders, founders, in what to focus on when starting a new business?

The comparison of the scientific statement and proposals will focus on if; customer size and type, previous business experience and knowledge, social capital and networks, first customer relationship, business development and lead user involvement have been important factors in the establishment of the businesses. Based on the knowledge and best practices discovered during the research the conclusion will present suggestions and ideas for how new companies can approach the search for, and development of, references and referrals.
Disposition of the study:

The first chapter introduces the subject and why it is interesting to investigate and define the research questions and chapter 2 presents the findings and recommendations found while investigating what scientific community have discovered regarding reference customers. In chapter 3 the research method is described and chapter 4 includes the empirical data gathered from the interviews conducted. In chapter 5 the results are analyzed and the study is concluded in chapter 6 where the results and recommendations for further investigations as well as recommendations to new entrepreneurs are described.
2 Theoretical Discussion

This theory section investigates the findings and conclusions made on the first reference customer, why it is important and what the characteristics of a good first reference customer are and what to look for when trying to establish the initial reference.

2.1 The Problems Young New Technology Businesses Face

The market for a complex technology product can sometimes be called a reference business (Ruokolainen and Mäkelä, 2007, Ruokolainen et al, 2005). They mean that it is common for corporate customers to require references before they take a decision to do business. In this context, the first customer reference becomes especially important, almost vital, for the start-up company when they try to enter a market with their products and services. It is almost impossible to convince a new potential customer without real proof and a customer reference. The importance of a first customer reference is indubitable and the delivery of the first customer reference is a challenge for the company (Ruokolainen, 2008, Ruokolainen and Mäkelä, 2007).

One way of testing the technology is to co-develop with the customer or let the first customer pay for the first implementation. Ruokolainen (2005) conclude that “The first critical point is to find the first customer for the start-up company and its first product. The second critical point is to exit from the first customer without causing the customer to take legal action.” This is especially important when the start-up company gets paid to implement their technology in the customer systems or facilities and the result could be regarded as intellectual property, IP, which the customer might want to control to get a stronger competitive advantage over the competitors. The ownership of any IP must be agreed upon before the work starts.

The problem and challenge in finding the first reference customer is also supported by Gomez-Arias and Montermoso (2007). The start-up company should look to many aspects for the engagement since the first customer can be an excellent source of learning, technology testing as well as a marketing and promotion tool, and not only to a
short term expectation of income (revenues). Gomez-Arias and Montermoso (2007) also note that it is at the reference customer the problems and possible draw backs of the product/technology will be discovered. The reference customer installation is at the same time also expected to be a showcase where new potential customers can see that the installation works. This puts importance to good relations with the reference customer, especially after the first launch. It is preferred that the reference customer has a strong brand name and is well recognized in the industry.

The success of the first reference customer helps the company in getting into the market by proving that the product or service concept works. Successful reference customers can thus be used to remove customer doubts and also serve as the objective evidence supporting the product or service concept (Ruokolainen and Igel, 2004).

Credibility through the objective evidence that can be delivered from a reference installation seems to be one of the key concepts relating to gaining the benefits out of customer references (Ruokolainen and Mäkelä, 2007). We need to further investigate how this credibility can be established through a selection of a reference customer.

2.2 Reference Customer – a Domain Model, Benefits and Establishment Process

In order to expand the field this sub-section presents findings regarding a domain model construction, a listing of benefits of references, both from the seller, and the buyer point of view, and a processes for establishing customer references.

2.2.1 A Domain Model for Constructing Reference Business

Ruokolainen and Mäkelä (2007) and Ruokolainen et al (2005) state that the market for complex technology products can at times be called a reference business. Ruokolainen and Mäkelä (2007) have constructed a domain model of which a subset is described in figure 1. The model, based on theory and observations in the software industry, include concepts and complementary definitions as; customer reference, first customer reference,
first reference customer, next potential customer, business case, reference business case, and reference business. The definitions are:

- **Reference businesses:**
  This business normally consists of complex and high-tech products and/or services for customers in a B2B market. Credibility is an important factor for sales and customer references are needed in order to prove the technology.

- **Business case:**
  The business case is information that describes the reason for running a project, in this case involve in business activities with another company. Business cases usually include ROI calculations and expected improvements and it is the prerequisite for the buying side in order to get an approval for an investment.

- **Reference business case:**
  The reference business case is defined as: “A reference business case comprises those verified sales arguments that are assumed to match the supplier’s next potential customers’ business case”. It can consist of sales arguments, gained ROI (Return On Investment), etc, (see figure 1).

- **Next potential customer:**
  This is a prospect that may be interested in the product provided. The next potential customer needs the business case of the customer references to compare with his business case to evaluate the offering.

- **Customer reference:**
  Definition: “The customer reference consists of a supplier’s commercial product or services and the reference business case of the product or services”.

- **First customer references and First reference customer:**
  The first customer reference consists of the first commercial product and a related business case and it is provided by the first reference customer, the first commercial user of the product.

Ruokolainen and Mäkelä (p. 198, 2007) describe the model shown in figure 1 as follows: “the start-up technology company needs a reference customer for its product, which is typically innovative, complex, and high technology. Lacking credibility the start-up company needs to use its entrepreneur’s social capital to find the first reference customer. After obtaining the customer,
the product must be implemented. The first reference customer might have an interest in the intellectual property rights of the product if, for example, the cost of the implementation and development is not shared between the first reference customer and the start-up technology company. The focus of the start-up technology company should be on collecting sales arguments for the business case to which the potential customers’ business cases can be compared.”.

It’s important that the start-up company use the social capital and networks they have access to and find a customer that can be a reference for their offering. When they find the first customer they need to start to build business cases for the next sales and at the same time make sure that they have the right to continue to develop, market and sell the technology, product or service. This is especially important if the first customer paid for the development.

**Figure 1: The domain model for constructing reference business**

![Domain Model](image)

*Source: Ruokolainen and Mäkelä, p. 197, 2007*
The model is describing how concepts and artifacts are related and can serve as a guide when deciding on where to put the efforts and achieve a greater understanding of how different factors and forces relates and depends upon each other. By using the knowledge gained from the reference business case the business case of the next potential customer can be created. The first reference customer serves both as a provider of objective evidence to the next potential customer as well as an evidence of a presence in the reference business.

In their study Ruokolainen and Mäkelä (2007) make the following 4 conclusions:

1. New potential customers are more interested in the customer reference, including the installation and the business case, than in the reference customer itself. The reference customer is therefore (only) valuable if he will validate the promises, key selling points, and recommend the supplier.

2. The market type affects the credibility gap and rapidly developing technology is more sensitive to credibility. A company without references presents a risk which increases the credibility gap. The credibility gap for new technology can be decreased through customer references.

3. The reference business will help if it is similar with the business case of the new potential customer. The selection of the first customer reference thus become important from a majority point of view and it should be made with a special attention to how general the first reference business case will be.

4. Increased credibility means that customer outside the professional and social networks are easier to approach. This expands the available market and more general theories of business, notable sales and marketing, can be pursued as the need of exploitation of personal contacts becomes less important as the company grows and develop a brand name.
2.2.2 The Benefits From a Good First Reference Customer

But what are the benefits of a first, reference and pioneer, customer? Gomez-Arias and Montermoso (2007) defines the driving forces of the initial reference customers according to figure 2.

**Figure 2: Vendor-First Customer Factors**

The benefits for the high tech company, the vendor in figure 2, are:

- **Revenue generation:**
  The initial paying customer is very important since they are a source of income which in many cases is vital for new companies, a possible difference between success and foreclosure. This is not to be mistaken for beta-site testing or other means of marketing and discounting where the product or service is almost given away for free.

- **Product Development and Improvement:**
  Customer, and lead user, involvement is necessary for the refinement of new products and services, especially in the high-tech area where major development often is required after the first launch. Close interactions with the first customer can be very valuable when debugging, evaluating and refining the offer.

- **Learning:**
  There is a lot to learn when entering the market. The first customer(s) gives more
knowledge about expectations on services, performance etc as well as the
definition of key selling points and value propositions.

• **Promotion**:  
The first customer can strongly influence the possibilities to enter a market. The reference customers support the sales as they are a proof for other potential customers that the technology works and partially removes technological and business uncertainties. This is also emphasized by Roukolainen (2005) where he states that for start-up companies in the software business more than 40% of the companies noted that their first reference customer was the most important event in the past.

• **Strategic Pre-emption**:  
New high-tech products are often combined with a long term commitment to the innovation by the customer organization. A good initial reference can assist in the establishment of the technology at the customer sites and in successful cases in a whole industry. In the most prosperous cases the customer will block the competitors and thereby pre-empt competition.

• **Cost Leverage**:  
Complex customer environment may allow the different features of a complex, high-tech, solution to interact in at the customer location. This may require fewer sales, engineering and support resources when serving the client and thus induce savings compared when targeting a larger diverse set of clients.

There can not only be benefits for the high-tech company, the vendor. The customer organization also needs benefits from such collaborations. So why do they become customers of a new, un-proven, company? Gomez-Arias and Montermoso (2007) continue and explain the benefits for the customers shown in figure 2 as:

• **Performance**:  
Usually a strong argument, especially if the new offerings give a quantum leap regarding features, quality or any other performance indicators chosen.
• **Competitive Advantage:**
  Getting a head start on the competition, temporary or continuously, is a strong competitive advantage. These advantages may translate into different areas and they are important when (re-)positioning in the marketplace.

• **Image:**
  Some companies have a strategy of being early adopters and build a corporate image of being in the frontline when it comes to new technology.

• **Relationship:**
  Long term relationship with a high-tech supplier is a commitment which can develop into strategic alliances built on trust with benefits of shared risks e.t.c. Ruokolainen (2008) supports this and state that the customers should regard partnerships with start-up companies as investments, which may assist them in their own success.

• **Customer Service:**
  All the resources of the vendor will be focused on the first customer so the services and attention received will be much higher than if being one of many customers. The supplier is dependent on the reference for subsequent business.

• **Customization:**
  The business that is first to adopt the technology have an advantage over the followers. The inputs and suggestions for improvements are likely to be more strongly considered by the vendor and the chances that the implementation will be even better implemented into the value chain are increased.

Gomez-Arias and Montermoso (2007) conclude that the selection of the first reference customer is a strategic rather than a tactical decision. The first reference will have an impact on revenues, technology and business development as well as the publicity within the industry where the first customer operates. The first customer in a high-tech business is a marketing resource that should be used to leverage the technology, not just create revenues. Trust is gradually being built with the first customer that can be transformed into business within other areas of the selected company. A well defined and designed
marketing mix is necessary to balance the offer so pricing, availability and partnership agreements become crucial elements in this process.

### 2.2.3 Customer Reference Establishment Process

In the case described by Ruokolainen (2008) the first customer paid for the implementation which is quite common for new ideas regarding software. The reference installation is in fact the definition of the customized product offer. Ruokolainen (2008) describes a 3 period/step process to use when establishing a first customer reference, see figure 3.

**Figure 3: The process for the use of the first customer reference**

| Period 1: Finding the first reference customer |
| Period 2: Implementing the system for the first reference customer |
| Period 3: Expanding the Business with the help of the first customer reference |

*Source: Ruokolainen, p. 285, 2008*

In period 1 the identification and qualification of the reference customer is made. Ruokolainen (2008) mean that social capital, personal networks and other contacts are very important in this step.

During the second period the background of the entrepreneur is important to enable the implementation of the offering with the first reference customer as well as the commitment of the reference customer to follow through with the project.

In order to enter the broader market, period 3 is needed to learn from the reference customer and identify the values implemented at the reference customer and market them to the broader market. The arguments for further sales are vital.

The commitment of the first reference customer, as stated during period 2, will be important throughout the commercialization process, i.e. spanning into period 3, since
they are the proof of the long term success. To partner with the first customer, depending on the relationship, might be a good idea since it increases the probability that they become committed and a reference customer with a product or service in operation. (Ruokolainen, 2008)

2.3 What to Look For When Starting Business and Selecting a First Reference

After this exploration of how concepts and artifacts relates, the benefits from both the vendor and customer side when engaging in new business, and a process for establishing a reference has been explained. We will describe areas that are commonly mentioned and expressed as important in the literature when creating the first reference.

2.3.1 Size and Customer Type

The sizes of the company selected have many different aspects (Gomez-Arias and Montermoso, 2007). Large companies have the resources necessary but the complex structure may make it difficult to implement new technology. A small or mid-size company is likely to be the best choice since it has enough resources, fast decision process and they are prone to like the special (high) attention they can get from a small company (Gomez-Arias and Montermoso, 2007; Ruokolainen and Igel, 2004). The selection of the mid size company is also supported by Ruokolainen and Mäkelä (2007) as well as by Ruokolainen (2005) as he points out that it is good enough to look for an average-sized company with a good reputation.

The customer type is also important. Gomez-Arias and Montermoso (2007) recommend the start-up to look at the customer’s previous approaches to innovations and implementation of new technology. Wilkinson et al. (2005) also note that technology issues and assessment of current capabilities are important when selecting a partner. Customers should regard the venture with the start-up company as a long-term investment since it may increase their own success in business (Ruokolainen, 2008).
Even though the immediate revenue is important, the customer and industry selected must be able to show how the offerings create high values and the selection of a reference customer should be one that is known to be innovative and in the frontline of technology (Gomez-Arias and Montermoso, 2007).

Large corporations can mismanage their relations with start-ups. Ruokolainen et al (2005) notes that the payment of invoices doesn’t follow the expiry date of the expenses of the start-up so the revenues from work performed comes long after it has been performed. When large companies today start to demand that the payment term moves from 30 days up to 90 or even 120 days, financial problems may occur at the start-up. Large companies tend to use the value of their image to squeeze new suppliers (Ruokolainen and Igel, 2004).

2.3.2 Experience in the Start-up

In Ruokolainen’s (2005) study the second most important event of the past was the experience gained before starting the new business. The experience gained from previous employment seems to be a key source for business knowledge and important for the success of the company as the technical background and knowledge alone don’t guarantee any achievements (Ruokolainen and Igel, 2004).

The experience of the CEO seems to be especially important and previously acquired business skills help in implementation of the first reference (Ruokolainen, 2005) and there is a noted linkage between new venture success and the owner's behavioral characteristics and knowledge (Ostgaard and Birley, 1996).

2.3.3 Social Capital and Personal Networks

Good contacts is the second most important reason (44%) why start-ups are able to gain new customers according to Ruokolainen’s (2005) study. This is lower than the results of the findings of why the customer selected the solution from the start-up, where the personal contact was accounted for 26%, second to the unique solution provided (30%).
The results show that strong relationships and social capital are important when finding the first reference (Ruokolainen, 2005).

An important step when starting a business is the gathering of resources. These resources are found in the personal network of the owner (Ostgaard and Birley, 1996). The network also provides contacts and credibility as well as support (Ostgaard and Birley, 1996).

The networks are needed to find and convince the first reference to trust the unknown and unproven technology and important factors of success are the social capital, the owner’s background, and the commitment to the business (Ruokolainen and Igel, 2004). The success of sales depends upon trust which is easier obtained and stronger within the personal networks (Blomqvist, 1997).

There are other situations when the social capital also becomes important. If a company has customers where the implementation has failed the competitors may begin to use these stories against the company. In these situations the social capital in the form of the relationship management could provide a remedy for the situation and prevent that the reputation of the company gets [to] damaged (Ruokolainen and Mäkelä, 2007).

One should note that there is a difference in trusting a person and trusting an organization or company (Blomqvist, 1997). When organizational trust is reached the people in the customer and the vendor organization interact regularly in a “trusting” way. For a start-up company this has in many cases been developed from the contacts of the owner and his or hers relations in the customer company (Blomqvist, 1997).

2.3.4 Relationship and Partnership

The findings of Ostgaard and Birley (1996) indicate that developing customer relationships is particularly important in the early years of the start-up. Ruokolainen and Mäkelä (2007) also state that social capital only works in the networks where the
relationships are built on permanent friendship or if the same visions are shared. Partners attract each other because of the complementary skills, or in this case technology, they possess but there must be sufficient enough similarities between the companies in order to integrate the operations and develop the collaborations further (Wilkinson et al., 2005).

Long term relationship with a start-up [high-tech] supplier is a commitment which can develop into strategic alliances developing trust with benefits of shared risks e.t.c. (Gomez-Arias and Montermoso, 2007) so there is also an apparent upside for the customer business. When the relationship becomes a partnership the customer has recognized the supplier as a long term business partner with whom products and practices are developed together and the good and bad times are shared (Ruokolainen and Igel, 2004).

Wilkinson et al. (2005) argue that companies often follow the process of assortative mating and partner with companies that are similar or complementary within the market. In the findings they note that financial issues like stability and economic performance is the most important matching characteristic. That fact combined with the finding that relationships usually are nurtured according to how they are performing at this moment, present a risk that long term potentials in the partnerships are likely to be overlooked (Wilkinson et al., 2005).

2.3.5  Business Development

We have previously noted that start-ups are vulnerable and the behaviors of the first customers are important. Start-up companies often have the technology know-how but less often knowledge and experience in business and customer management (Ruokolainen and Igel, 2004). The first customer can in this context be valuable if it is willing to share its knowledge in business processes (Ruokolainen, 2005; Ruokolainen and Igel, 2004).
Ruokolainen (2008) conclude that the first customer reference should support the growth of the company and the focus should be on developing the sales arguments and not on testing technology. The sales arguments, which then have been proved beneficial, will assist in gaining more business (Ruokolainen, 2008; Ruokolainen, 2005; Ruokolainen and Igel, 2004).

The business development and structural development of the company has been noted as important for a sustained success in business. High-growth companies have usually developed and implemented formal procedures for marketing and product development and don’t use less professional approaches like “word of mouth” in advertising and marketing (Ostgaard and Birley, 1996).

### 2.3.6 Lead Users

An alternative to the use of partners is the use of lead users. Urban and Hippel (1988) have found that lead users when successfully identified are useful in discovering needs and solutions to those needs. The lead users are often well respected scientists or experts within their field and other people tend to follow what they do.

The methodology is to specify lead user indicators (trends and measures for benefits), identify lead user groups, generate product and service offerings with the lead users, and test the product/service in the lead user group (Urban and Hippel, 1988). The results of using the methodology indicate that the customer input can positively affect the product design outcome (Urban and von Hippel, 1988) and from the start-up company’s point of view this means that the first customer is a pilot not only for the new product but also for the whole product concept including sales, after-sales support etc (Urban and von Hippel, 1988; Ruokolainen and Igel, 2004).

The lead user concept does however have apparent weaknesses. We assume that the rest of the customer follows and wants the new functionality and that trends are correctly identified. This is not always the case since the lead users may express different needs.
compare to the main stream (Urban and Hippel, 1988) and truly novel technology innovations would not be possible to achieve from looking at the incremental improvements this concept tends to create.

2.4 Critical reflection on the theory

The theory is supportive regarding the importance of networks and social capital as stated in chapter 2.3.3 which I believe is a key. I also find in the theory that the importance of getting a reference customer is important to prove to the rest of the market that there is someone that is ready to pay for the product or service that is offered. It is good to have a process to follow (Ruokolainen, 2008) and as I understand it the domain model of Ruokolainen and Mäkelä (2007) shows important dependencies of how the first reference customer provides the first reference and experience for improvements of the business case which is important when the next potential customer is approached. The dependencies are important be aware of when starting a business and creating subsequent business from the knowledge acquired from the first customer. The mutual benefits for both the vendor and first customer as described by Gomez-Arias and Montermoso (2007) are also according to my beliefs.

The theoretical statements and recommendations are also focusing on the importance of factors like size and type of the first customer as well as the importance of experience within the start-up. The type of experience is heavily targeted against business skills rather than the personality and drive of the entrepreneur but in this question Ostgaard and Birley (1996) stands out and notice the importance of the entrepreneur's behavioral characteristics rather than the business skills. When concluding the reflection on the theory, the following areas have been selected as the most important factors to investigate in this research:

- Size and Customer Type
- Experience in the Start-up
- Social Capital and Personal Networks
- Relationship and Partnership
- Business Development
- Lead Users
3 Research Method Description

The purpose of the investigation is to determine how a young business proceeds when selecting a reference customer in order to enhance the probability of success.

3.1 Research Approach and Data Collection Method

An explorative direction to an investigation is appropriate when one needs to get better knowledge of a problem domain or get data for an analysis in order to formulate ideas and suggestions for actions and measures. A descriptive direction is feasible when one wants to identify the causality, cause with a corresponding effect, within an area (Lekvall and Albin, 2001).

The approach to an investigation is usually decided for two dimensions: in depth or across and qualitative or quantitative. The case study, in depth, investigates relations and how factors interact within the investigated subject and the cross-sectional study investigates the same variable, factors, across all investigated subjects (Lekvall and Albin, 2001). The input from a case study can be used to form concepts which can be tried against theory (Gummesson, 2005). A qualitative approach uses, look for, data that can’t easily be quantified or expressed in numbers whereas the quantitative approach usually gives the material collected expressed in numbers. (Lekvall and Albin, 2001)

The approach in this study is a combination of a case study and cross-sectional study with qualitative data. The case study component of the approach enables a deeper investigation of how each investigated subject have acted in the early stages in business whereas the cross-sectional part looks for and attempts to verify hypothesis from the theory and supposition from the researcher (Lekvall and Albin, 2001). The questions in the interviews were partially predefined, a cross-sectional approach, and complemented with open ended questions formed according to the answers on the pre-defined questions, a case study approach. A dual, or multiple, approach is also supported by Gummesson (2006) as he believes research is a combination of many perceptions and that a researcher should use and combine whatever methods he feels comfortable with; qualitative,
quantitative or a hybrid. Lekvall and Albin (2001) also state that case studies can be used to identify the factors affecting the target and the cross sectional analysis can determine if the different factors are commonly expressed in the investigated population.

The primary data collection method has been achieved through personal interviews. The quality of different data collection approaches has been listed by Lekvall and Albin (2001) and the methods used are both ranked between good to excellent in the areas of; speed, control, and interview dynamics, and they give very small limitations in the use of different questioning techniques.

3.2 Selection of Candidates

The network ICT (Internet Communication Technology) Uppsala has close to 30 members. 8 companies were selected and asked to participate in the study. 7 out of the 8 companies were positive and interviews were conducted in February and March 2010.

The first selection criteria were that the “age” of the idea, product and/or service, had to be at least 5 years. The rationale behind the age criteria is that significant time wanted to have passed so the success of the first reference customer could be evaluated and reflected upon. In very young companies the benefits and drawbacks of the first reference customer is hard to evaluate since they often still are a (dominant) customer.

The second selection criteria were that the founders should still be active and working within the respective companies. Without the original staff (founders and co-founders) the answers to the questions asked would be speculation and guesses made out of stories previously told by the founders. All the interviewees were founders and current business leaders.

The last but maybe most important criteria were that the companies should present a special niche in their marketing of their business, either regarding the products and/or the
services performed. This criteria rule out companies that are too general in their business proposal and focus on the firms that have focused on a special need identified in the market and built their respected businesses around those needs.

3.3 The Interviews

All the interviews except one was held at the respective companies head quarters in Uppsala. The first interviews were planned for 1 hour duration but it was early discovered that that was too little time so from the second interview and onwards, 1.5 hour was set aside for each occasion.

3.3.1 Preparations

When the times were agreed a confirming e-mail with the framework questionnaire (see Appendix A) attached was sent to the respondents. Even though I had previous knowledge of the companies, each website was studied before each interview. The study of the home pages enabled qualitative follow-up questions to the distributed framework, targeting the specific core businesses of each company.

All interviewees had read the distributed material and were well prepared when we met for the actual interview. It’s also notable that almost all of them asked for the purpose of the study to verify that they had understood what was investigated which in the end is expected to result in better, qualitative, answers.

3.3.2 Execution

The interviews were held in the respective companies head office in Uppsala in a secluded and relaxed environment. The comfort of home court advantage in combination with good knowledge in the subject, the start of their own business, made the interviews run smoothly and the main questions, including the follow-up questions, were answered with ease. Each interview ended with the request of each interviewee to state the 3 most important issues, factors or areas to focus on, or try to acquire, when starting a company, with or without respect to a reference customer.
The answers to the questions, from the questionnaire and the extensions, were written down and kept in note format. No analyses of the answers begun before all the interviews were completed. This was important in order to avoid that complementary questions influenced by new thoughts were added and minimized the risk of guiding the interview towards an expected or desired outcome.

### 3.4 Analysis of the Data

The factors decided to investigate are Size and Customer Type, Experience in the Start-up, Social Capital and Personal Networks, Relationship and Partnership, Business Development and Lead Users and the questions in the questionnaire (see Appendix A) correspond to each factor according to Table 1 below.

#### Table 1: Factor coverage in the questionnaire

<table>
<thead>
<tr>
<th>Factor</th>
<th>Covered in question</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size and Customer Type</td>
<td>6</td>
</tr>
<tr>
<td>Experience in the Start-up</td>
<td>2, 4, 9</td>
</tr>
<tr>
<td>Social Capital and Personal Networks</td>
<td>2, 4, 5, 8, 9</td>
</tr>
<tr>
<td>Relationship and Partnership</td>
<td>5, 7, 8, 10</td>
</tr>
<tr>
<td>Business Development</td>
<td>2, 5, 7, 9, 10</td>
</tr>
<tr>
<td>Lead Users</td>
<td>2, 5, 9</td>
</tr>
</tbody>
</table>

*Mapping over how the questions in the questionnaire (Appendix A) cover the factors targeted for investigation.*

With this approach all factors, except from Size and Customer Type, were covered with a minimum of three different questions. Note that questions 1, 3 and 11 were used for collection of facts regarding each company.

The answers and findings regarding the factors were extracted from the questions and each company was analyzed whether they do or do not support the theoretical statements investigated. The answers to the questions 2, 4, 5, 7-10 and the interviewees’ best recom-
A theoretical statement is in my investigation considered as strongly supported when 5 or more of the 7 answers agree with the statement, supported when 4 out of 7 agree, not clearly supported when 3 out of 7 agree, and not supported when 2 or less of the answers agree with the statement.

The answers are generic and not directly traceable to a specific interviewee due to requests about anonymity with respect to some of the answers.

### 3.5 Validity and Reliability of the Study

This research is of qualitative art and it is built on semi-structured in depth interviews. Two different kinds of errors commonly occur in this type of research. Sources of error are that the respondent is not representative for the target group and that the measurement system is not valid or reliable (Lekvall and Albin, 2001).

A qualitative approach will assist the researcher in investigating with complex problems involving multiple factors, notably relationships in this research. An interactive research approach, involving different interactions between the researcher and the object of study, will also contribute to a high level of validity (Gummesson, 2005).

For this research we can exclude the error source of the respondents since they are selected and verified as the origins of the ideas and business for the respective companies selected for the interviews. An interactive approach was achieved through a combination of interviews, web-searches and the distribution of questions before the interviews.
3.5.1 **Validity of the Method**

Validity deals with the certainty that the measurement method measures the properties or factors it was intended to. There is however impossible to establish if a measurement method is valid or not and the validity is more or less established on subjective judgment. It’s suggested that it is hard to ask valid questions when doing qualitative research since the questions asked may be rhetorical or set up in a way that the answers are anticipated to a pre-defined direction (Lekvall and Albin, 2001).

In order to increase the validity, the framework of the questions were sent to the respondent before the interview and thus lowering the risk that the main questions were overtaken by the expectations and complementary questions made by the researcher.

3.5.2 **Reliability of the Method**

The reliability of a method is dependent on the possibility to resist influence from random coincidences during the interviews. If the answer to a questions would remain the same when repeated the reliability is high, but if the answers tend to differ the reliability is low. There are external as well as situational factors that can affect the reliability of the answers of the respondent. External factors can for example be related to the health of the respondent, like fatigue and stress, while situational factors are more a result of the interaction between the respondent and the researcher. (Lekvall and Albin, 2001).

The reliability of the study is hard to determine since the external factors are almost impossible to monitor. The situational factors are also hard to evaluate but by using companies within my personal professional network the responses are expected to be honest and the interactions between the respondents and the researcher were on equal levels, thus increasing the reliability.
4 Empirical Study/Data Collected

This section presents the companies and the answers to the questions as well as other statements expressed during the interviews.

4.1 Presentation of the Companies Interviewed

This sub-section briefly describes the companies and the respective ideas that lead to the start and establishment of the current business.

Animech Technologies AB

The business idea of Animech Technologies is based on its expertise in information visualization and utilizing of existing 3D CAD data and they use real time 3D to simplify and increase efficiency throughout the customers organizations by allowing information to be handled and presented in a novel way. The primary targets for the products and services delivered are after sales organizations, sales configuration and interactive product demonstrations. (AT website)

The idea, to further utilize existing 3D data into other applications, was sprung in 2000. The first prototype was developed 2003 together with Amersham Biosciences (later to become GE) and by 2004 the first version of aniPart™ was released from Animech. In 2007 Animech Technologies was registered to focus on the business segments described above. Björn Berg, CEO and co-founder of the Animech Technologies, was interviewed for this research.
Consoden AB

Consoden is a consulting company with a special focus and experience within the military and the telecom business. They are specialized within system development, business development, test and project management. (Consoden website)

The company was founded on the need of a niche competence. FMV was to order a tactical IT system but didn’t know how to formulate the requirements. When returning home after working on a military project in Australia Mats Östlund, CEO and founder of Consoden, started the company with specific competence of public procurement and military management systems. Mats was interviewed for this research.

Drop (Drop&Search Systems AB)

The business idea of Drop is to develop applications for the relational database 4D using the development framework dropShell. Drop provide rapid system development and have experience in application areas of time and project management, sales, billing e.t.c. They are also the supplier of the Swedish market leading system for fertility clinics called FertSoft. Drop has also developed a product for developing dynamic web pages which has been spun out to a new company WebPages nklt AB. (Drop website)

Martin Björkman, CEO and founder of Drop, started the company in 1995. This was a result of that the training business at UDAC (Uppsala DAta Central) had a negative trend and Martin had the opportunity to take his developed components and ideas and start his own business. Martin was interviewed for this research.

Europoint AB

Europoint is consultancy company and they have specialist competency in the areas of information, IT and communication security. As a branch and hardware vendor independent company Europoint offer customizations and they optimize security solutions for customer specific needs.
Björn Sjöholm, CEO and co-founder of Europoint, started the company together with 2 partners in 2001. Their employer at the time re-organized but as the new directions and requirements on the team Björn was managing didn’t feel right, they decided to resign and start a company with specialist competence and knowledge in the areas of IT security and IT infrastructure. Björn was interviewed for this research.

*LeanOn AB*

LeanOn is well known in banking and finance IT. They have specific competence and experience in developing and integrating business critical systems. They have developed a platform framework for business critical transaction which is sold as a product under the name LEIF, LeanOn Enterprise Integration Framework. (LeanOn website)

The company started in 1998 when the employer of the founders reorganized and lost focus on developing internet application development. The 6 founders resigned, registered a company and started, as sub contractors, to develop a transaction system for OMX. From that first project a company of about 25 people with specific competence in banking and finance IT systems have developed. Mikael Lundgren, EVP and co-founder of LeanOn, was interviewed for this research.

*NTier AB*

NTier consultancy company offers consultants for system development with a special focus on design, architecture and programming. They are focused on the technology from Microsoft like .NET, SQL Server and MOSS and they can offer to host the solutions they build. Projects can be run in-house or at the customer locations. (NTier website)

The company was founded by 4 newly graduated students from Uppsala University in 1998. Two of the founders did their Master thesis at consultancy companies they discovered that their technical knowledge was well sufficient to work as consultants.
directly after graduation. They discussed and evaluated the options and decided to start a consultancy company instead of seeking employment. Niko Rosenquist, CEO and co-founder of NTier, was interviewed for this research.

**Trippus AB**

The business idea of Trippus is to co-ordinate all the information and administration relating of a customer event from one website – online. The main goal is to make the arrangements around events easier for everyone from the organizers to the participants. The system, Trippus Eventus, can manage a wide range of events from small courses to big and complex events and congresses including booking of transport, hotels, etc. (Trippus website)

The company started in May 2000 with the business idea of becoming a broker of group travel and a web based application was developed. As the competition in the travel industry has increased, Trippus has continued to develop online applications and expanded their offer to cover the complexity of whole events and Trippus is now licensing out the system to several countries. Martin Klöfver, CEO and co-founder, was interviewed for this research.

### 4.2 Data Collected, Answers and Recommendations

We will now present the answers from to the primary research questions presented as well as the individual recommendations from all interviewees. Basic data regarding the companies and companies has been entered into a table in Appendix B and the answers stated further on in this chapter reflects how the interviewees responded to the open ended questions leading to the answers on how customer size and type, previous business experience and knowledge, social capital and networks, first customer relationship, business development and lead user involvement have been important factors in the establishment first reference customer and subsequent business leading to a profitable company.
4.2.1 Describe how the idea developed into a company

In three of the companies the business emerged from unmet needs discovered in the market and the founders started a company and developed a business to target these needs.

Three of the business started from the fact that the founders believed that the work, mainly system development, they were performing could be executed better and more efficient than they were experiencing at that time.

The last business was founded from a technology base that the current owner didn’t want to explore so the founder was able to acquire the technology and start a new business and support the current customers of that technology.

4.2.2 How many people were there at start and what competences did they possess?

The companies started with 1-6 people as founders where two of the companies only had a single founder.

When it comes to business experience there is also a quite large spread. In two of the company there was CEO experience present within the founders and the same two persons also had other executive experience from both large and small companies.

The founder of the third company described a middle manager experience but not any hands-on knowledge of sales and marketing.

The forth company didn’t have any other experience within the founders other than a strong technical expertise. They compensated the lack of business knowledge right from the beginning by engaging a mentor for the Board and signed up for a business development program at “Centrum för entreprenörsskap” which was very highly valued.
Company number five started when the founders after completing their Master Thesis together felt that they had the skills necessary and wanted to try to establish a company by themselves. During an active study period they had worked in non-profit organizations but no skills were present regarding sales and marketing.

The last two companies didn’t have any business knowledge within the founders and in one case not even within the personal network. The solutions to the problems differed between the companies. In one case an outside investor with strong business knowledge and background was engaged to the business and in the other case different business start courses were attended.

4.2.3 How did the company get their first customer? How was the selection process?

In all of the companies the first customer was acquired through the personal and professional network.

In the case with the business that was found around an existing technology the first customers came from the previous owner of the technology and the customers continued to use and purchase upgrades, development and support from the start-up company.

In 5 of the companies the networks were more actively explored and the all contacted potential customers directly as well as other companies that they wanted to be third party partners to.

One company relay stands out as the founders were contacted by the first customer through a person within the professional network who asked them if they could build an application targeting their needs.
None of the companies expressed that they had used any strategy regarding size or type when looking to secure the first customer. They all started to contact the persons in the network where they felt they had the best relations and reputation regardless of where they were active at the time.

4.2.4 **How did you collaborate? What were the business arrangements?**

Two of the companies started their business as a partnership, co-development, with other companies. In the first arrangement the customer didn’t want to have access to any IP since they wanted the application to become a product so further development costs would be divided between many customers and driven from a broader set of user inputs and demands. The other set up was different since the first customer owned system and the start-up company interviewed continuously developed upon request and owned the support contracts.

The major part, 4 companies, started with development or service contracts where the customers owned the output from the deliveries. This has changed over the years and 2 of these start-ups have products of their own at the present.

One company stands out since they developed a product which they managed to sell to the first customer but soon several other customers bought the product.

4.2.5 **Is the first reference customer still a customer?**

In all but one company the first reference customer is still a customer if one goes strictly by the definition first reference customer. The company that doesn’t have the first reference customer as a customer any more still has a reference customer from the first 2 years of business so one can argue that they have at least one of the first reference customers as a customer.
What is notable when discussing the first reference customer is that all the interviewees state the importance of the brand name of the customer in the market as well as in the geographical region they target. The marketing value of the reference customers’ brand name is perceived as very important.

4.2.6 What external expertise has been used when building the company?

In addition to the immediate assistance in starting the business mentioned in the answers in section 5.2.2 there hasn’t been a lot of external expertise added to the companies.

In one case an external Director of the Board has been recruited and services regarding business development and sale support have been purchased. In the rest of the companies the business development has consisted of different courses and in one of the start-ups outside support for marketing and pricing has been purchased. The companies have all in all developed their own skills in business.

4.2.7 What business knowledge did you acquire from the first reference customer?

When asked what business knowledge that has been gained from the first reference customer the answer from all the interviewees can be described as “nothing”. They feel that the knowledge they have acquired in the areas of sales and marketing, including sales arguments, as well as process and structural development doesn’t come from the interactions with the first (reference) customers.

What is notably present is the learning of domain knowledge. 4 of the companies express that they have gained very good understanding of applications, standards, rules etc. that they have strongly benefitted from. In at least 3 of the companies where products have emerged the domain knowledge gained have played an important part in the realization of these products.
4.2.8 What are your top three recommendations for anyone starting a business?

All the interviewees refer directly or indirectly to the importance of good networks and relations. Use the employees’ networks, make sure the contacts in the networks are active, and use all your energy to build and maintain the networks are some of the suggestions.

Another notable recommendation is to be prepared for that it may take some time to establish the business and endurance and determination is necessary. You must be prepared to work long and odd hours before it takes off.

Surround yourself with the right people. It is everything from employees and partners to external contacts like board members. The wrong people can cost a lot in many different ways.

Reputation! Protect your company name and profile and be honest and clear about your offering regarding skill and purpose, focus on the core business. Try to exceed expectations and treat all assignments as potential references. One of the interviewees summarized and said “build trust”.

The complete set of recommendations and basic facts regarding the companies have been collected and entered into a table and can be found in Appendix B - Basic Data from the Companies Interviewed.
5 Analysis/Discussion

In this chapter the results of the analysis of the answers, compared with the customer establishment process and the most important factors for establishing new business found in the theory, are presented and discussed.

5.1 Customer Reference Establishment Process

According to Ruokolainen (2008), there is a 3 step establishment process that can be followed when selecting and create a reference case and reference customer and we’ll analyze how well this process and recommendations comply with the experience of the companies interviewed.

Ruokolainen (2008) suggest that finding the first reference customer is important and that the step involves and depends on social capital and personal networks and this is unanimous supported from all companies interviewed, 7 of 7. With one or maybe 2 exceptions the businesses might not have expanded if the customers hadn’t been found in the direct or indirect networks of the founders.

The success in the implementation step that Ruokolainen (2008) suggests that the background of the entrepreneur is an important factor to succeed in the delivery of the implementation is on supported, 4 of 7. It is important to build trust with the customers so they will follow through with the projects but the trust is already created when securing the contract, regardless of the type (i.e. contract development or product development/implementation) and the key to this second implementation step is more of delivering to or beyond expectations and securing a happy, returning, customer. To be able to listen, have great endurance and manage change quickly and smoothly are characteristics that have been found important to secure the first successful delivery and creation of reference customers rather than the background of the entrepreneur.
When reaching step 3, expanding the business, according to Ruokolainen (2008) the identification, and later marketing, of values implemented are clearly expressed as important factors for further subsequent sales, 5 of 7, strongly supported. 3 of the companies interviewed also had products developed with or at the same time as the first reference customer were secured and they express the importance of that the reference customer is committed, but also that the brand name is strong.

The process is therefore considered as strongly supported from the answers with the exception of the importance of the background of the entrepreneur which is supported. The characteristics and mindset is considered more important than the background in the second step. The characteristics that are frequently appearing in the answers are “service minded”, “endurance” and “ability to manage, cope with, changes”.

5.2 What to Look For When Starting Business and Selecting a First Reference

We analyze the answers considering the recommendations found in the literature concerning; size and customer type, experience in the start-up, social capital and personal networks, relationship and partnership, business development and lead users.

5.2.1 Size and Customer Type

The customer reputation and brand name is important for the reference customer according to all the interviewees and is therefore strongly supported, 7 of 7. One of the companies also stated that the strength in the brand name is the one most important factor when starting a business and finding a reference customer. It is noted that all the first reference customers except for one are nationally well known and have strong brand names. The exception, CvL, Carl Von Linné kliniken, is however well known and recommended in the fertility business segment in all of Scandinavia and therefore considered as a strong brand name but in a small market segment.
The sizes of the companies do however not have a significant relation or seems to play any important part when establishing a reference. Among the reference customers both large, multinational, corporations can be found next to the national companies. The larger size of the reference customer rather made one of the companies endure the IT crises in year 2000 due to their financial strength and commitment to continue to develop the business. It should also be noted that not many of the companies had started to demand long, >60 days, payment terms when the companies interviewed were started.

5.2.2 Experience in the Start-up

Previous experience from employment and good business skills are important factors for success according to Ruokolainen (2005), Ruokolainen and Igel, (2004) and Ostgaard and Birley (1996). This is not clearly supported in the interviews, 3 of 7 when counting business skills. Only in two of the companies the founders had experience from executive positions (CEO) and in one of the companies there was first line management experience present. If we include managerial and organizing skills to this perspective, like skills from working in a non-profit organization, the statement becomes supported, 4 of 7. In 3 of the companies the founders mainly had technical skills.

This lack of experience in the companies as suggested in section 3.3.2 was however compensated as we’ll find in the following section.

5.2.3 Social Capital and Personal Networks

As noted in the previous section, Customer Reference Establishment Process, the importance of the networks and social capital can’t be overstated. All companies express the importance of the networks, for finding business as well as finding people, as a key to success.

All of the companies found their first reference customer within the personal and professional networks. The customers in some cases came from the direct network, first line, but reference customers also came from friends and colleagues networks. A couple
of the companies also started from an expressed need from the first customer and one company was built around that first project.

Five of the companies were also co-founded with between 2 and 6 partners at start. This shows that the networks are an important factor not only for the establishment of references and reference customers but also for starting the business and recruiting people thus acquiring the necessary skills for the company in all phases, stages, in the build-up of the company.

All in all the networks, direct or indirect, are considered as the most important factor in any kind of business according to all the interviewees, well aligned with the theoretical statements.

5.2.4 Relationship and Partnership

To clearly separate the relationship and partnership with networks we’ll focus on the partnership which has more immediate long term commitment rather than the personal social relations.

With this definition only 2 of 7 companies started their businesses with a partnership approach and one of companies have later evolved their business into a partnership after a period of contract development.

But since only 4 of the 7 companies have products that in the beginning could have started as co-development or as a partnership, the data at hand and the differences of the business strategies amongst the companies makes it hard to draw any solid conclusions whether a long term relationship is vital in the successful start of a new business. With these differences, it’s not possible to either support or defer the importance of long term relations and partnership as suggested in section 3.3.4.
5.2.5 Business Development

Business development like process and structural development and sales arguments are important benefits which can be gained from the first customer according to Ruokolainen (2005, 2008) and Ruokolainen and Igel (2004).

In none of the companies, 0 of 7, was business practice as described above and in section 3.3.5 something that the start-ups recognized that they have acquired from the first customer. In 4 of the companies domain knowledge was acquired but sales arguments have been developed without the collaboration, assistance, of the reference customers. The reference customers assist to different extent in marketing the products and services but the knowledge of marketing has been developed without collaboration. The conclusion is that the assistance with business development as described is not an important factor to look for or try to co-develop during the project with the first (reference) customer. The sales arguments are very important but the need of the reference customers involvement in this development is not important.

5.2.6 Lead Users

The identification and usage of lead users has only been utilized in one of the companies, 1 of 7, and therefore the use of lead users, as described in the theory section 3.3.6, as an important factor is not supported.
5.2.7 Summary of the Factor Analysis

In the following table, table 1, shows how the factors described in the theory match the experience from the companies interviewed:

Table 2: Result of the factor analysis

<table>
<thead>
<tr>
<th></th>
<th>Strongly Supported</th>
<th>Supported</th>
<th>Not Clearly Supported</th>
<th>Not Supported</th>
</tr>
</thead>
<tbody>
<tr>
<td>Size and Customer Type</td>
<td>X</td>
<td></td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Experience in the Start-up</td>
<td>X</td>
<td>X</td>
<td>X</td>
<td></td>
</tr>
<tr>
<td>Social Capital and Personal Networks</td>
<td>X</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Relationship and Partnership</td>
<td>Inconclusive</td>
<td>Inconclusive</td>
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</tr>
<tr>
<td>Business Development</td>
<td>X</td>
<td>X</td>
<td></td>
<td>X</td>
</tr>
<tr>
<td>Lead Users</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Summary of how the theoretical recommendations found in literature are supported by the answers in the interview.

We observe from the table three results with dependencies upon the interpretation of the factor and one factor that can’t be rated.

The result of the importance of building relationship and partnership seems to be strongly dependant of the type of offering the company has. If the delivery is a product the relationship and partnership seems to have a significant effect but when it come to services or contract development no such dependencies appears to be present. I believe my observation is interesting but since the subset of each business type is so small, the result of the analysis is inconclusive, a larger data set is needed to support or reject the importance if the factor.

The differences in the result of the analysis of the three factors are:

i. Customer type with respect to the brand name is of great importance. The recognition and strength of the reference customer name have in all the answers been acknowledged to have played an important part in the usability and effectiveness of the reference. The size of the reference customers have on the
other hand not played an identified role when it comes to how important the factor has been perceived.

ii. Experience in the start-up is also a matter of uncertainty when it comes to the results. If we regard business skills as managing, selling and marketing a company the factor is not clearly supported but if we include organizing and basic management skills in general, the importance of experience becomes supported.

iii. Finally we have the benefits made regarding business development gained from the reference customer. If we look at the “pure” business skills the answer is not supported but if we include the domain knowledge acquired from working with the reference customer the statement becomes supported. If we only look at the product companies in the investigated set and regard new or enhanced domain knowledge as a business development factor the statement becomes strongly supported, 4 of 4.

We should also mention that none of the companies had a novel idea with respect to new applications or technology in areas where we expect to find lead users like in biotechnology or medicine which might be a reason to why this factor becomes not supported.

5.3 Summary of the analysis

When we conclude the analysis we find that the customer reference establishment process of Ruokalinen (2008) is strongly supported if we change the important variable in step two to the characteristics of the entrepreneur rather than the experience when it comes to the delivery of the first project. The slightly modified development process: Find (using networks), Deliver (by being service minded and agile) and Expanding (building sales arguments and marketing) is therefore considered as a good rule of thumb when establishing a new business.
The 4 most important factors for building first references and a taking a step towards a sustainable business discovered in this research are:

- **Social Capital and Personal Networks**
  Throughout all of the answers this factor is very important in order to get the assignments and projects so that a business can start but also to develop further. The use of the networks is also important for securing skills, as employees, advisors or board members, needed in the company as the business develops. It is through the network you are likely to find the first customer.

- **Customer Type**
  The brand name of the customer is important when it comes to the usefulness as reference customers. The size as described in the theory was not an important factor but rather the reputation in the business segment of which the reference customer operates in.

- **Business Development**
  Business development, notably of sales arguments and domain knowledge, is important to perform during and right after the delivery of the first projects as an instrument for marketing the company and take advantage of the first delivery and the reference made through the delivery. This development is however not dependant on any assistance from the reference customer since sales arguments need to be targeted the needs of the next customer through a proper qualification process (Shifferman, 2005).

- **Experience in the Start-up**
  Management experience, ranging from CEO level with business skills to general management skills, is present in a majority of the companies. The mix of skills and experience has enabled the companies grow and the knowledge gaps have been quickly filled. Organizational and leadership skills have been found important especially when expanding the companies. This is also supported by Ek and Kusik (1998) as they recommend companies to continuously develop these skills. It’s the skills rather than the experience that it important.
We have up until now not mentioned and analyzed the vendor driving factors as described by Gomez-Arias and Montermoso (2007) but the analysis of the answers leads to the following result. Revenue generation (source of income), product development and improvement (including domain knowledge development), learning (customer expectations) and promotion (the reference itself) are all benefits that have been experienced by the start-ups where the first three are considered as most dominant and important. Strategic pre-emption (new technology establishment within a market) and cost leverage (through benefits of scale at a specific [reference] customer) have on the other hand not been present in a significant way.
6 Comments, Conclusions and Recommendations

This section brings this investigation to a close by discussing findings from the analysis. Further it discusses the concepts and set up recommendations and conclusions.

6.1 Result of the study

There is no doubt that the reference customers are considered important for the business, both for the early survivals (income) as well as marketing value for subsequent business. The creation of business relations with a company, regardless of the type or brand recognition, is considered to be significant factor for further success. The fact that a customer is willing to spend money on the product or service that has been offered, is a vital milestone in the creation of a foundation for the company to build subsequent business upon.

When it comes to the comparison of the theoretical finding versus the empirical findings there are confirmation and differences. Social capital/personal networks, customer type (with respect to brand name in the business segment or market targeted), business development with a special attention to domain knowledge and finally the experience in the start-up; are supported to be important in the establishment of the companies. Neither the size of the companies nor the use or involvement of lead users have been noted as important in when building the companies and creating subsequent business.

The importance, and strategic use, of networks and relations are a recommendation to new business leaders and entrepreneurs. Endurance, stamina, is another recommendation that is mentioned with a high frequency. One must be prepared that it can take some time, and hard work, before the offering of the company is accepted (or known) in the market. The last most frequent recommendation is regarding people. The right people, with the right skills and attitudes are significant factors for success when building a company. If you find the right persons, with the right attitudes as well as the skills you need, there is a good chance that they, as a team together with you, will be able to create the ideas and energy needed to evolve from an idea to a prosperous company.
6.2 Overall Comments on the Investigation

I would like to start this section by describing how interesting and rewarding the work with this investigation has been. In my professional life I coach young business mainly regarding company development, like process and leadership development, but also regarding sales and marketing tactics and strategic planning. It has been interesting to study the theoretical findings other researchers has found and compare them with the experience from the companies interviewed as well as with my own personal knowledge.

It soon became clear that all the selected candidates were deeply involved in and passionate about their business, even though it was in some cases 15 years since the company was founded. This made the questions (see Appendix A) easy to answer which made that part quite quick to pass but still 1 hour was as previously stated found to be too short which may seem as contradiction. A significant amount of time was spent on setting the context through detailed explanations of the background to and the reasons why the businesses were started.

It has been rewarding and interesting to listen to these entrepreneurs as they with substantial glow and energy describe the early years of the business and the events and experiences from the periods prior and after the actual starting point of the respective company. By observing the energy and enthusiasm of the founders one can easily understand why the businesses has endured. All of them went through the recent recession and a couple of them also survived the IT crash of March 2000, and they are without any exceptions prosperous and performing well today.

I’ve also learned a lot of new facts and received input to new ideas and strategies for my daily profession. Some of my previous believes and knowledge has been strengthened but at an almost equal amount I have needed to re-think, review and re-calibrate my personal compass and adjust some of the approaches and processes previously used.
6.3 Comments on the Result of the Research Question

It was not surprising to discover that social capital and networks were considered as the most dominating and important factors when creating new businesses. A good friend of mine says “people do business, make deals, and companies write contracts” and that is absolutely true. To nurture relations and keep the networks active is my number one recommendation to all people, not only to those seeking to develop a company of their own. Contacts and good relationships are necessary in order to get most high-profile positions and jobs today. All managers I know try to recruit from networks, their own, friends and even the networks of the employees. This is how recruitment is performed today so make sure to build and maintain upon the social capital and the personal networks. It is more likely to find the first reference customer within the network so that is the community one should first try to explore.

I was surprised that the brand name of the customer was noted as significant as it was. I had doubts about the type and size part in the theory but I didn’t expect the brand name, a sub parameter of the company type, to be considered so important and highly valued. If possible approach customers with strong brand names when you harvest your network.

Business development was a factor I anticipated to be found important to acquire from the first (reference) customer and I did expect the companies to have learned sales and marketing skills from the customer. Instead the product companies have in the contact with the first customer learned a new domain and managed to build subsequent business from that knowledge. I don’t restrict business development to the structural development and sales and marketing strategies and I’m quite happy to see that when new eyes enter into a new domain they have an opportunity to exploit that domain further. Just because they come into the field with knowledge of other domains, novel ideas, solutions and new business opportunities seem likely to emerge. What we can learn from this is how we welcome new people with previous experience into our work group. When the “new guy” says that he has a couple of suggestions for improvement we should be quick to listen and not start off the conversation by explaining how things are done at our company. He or she has yet to be influenced by the current business practices and the
chances of getting novel ideas for improvement are most likely much higher during the first couple of weeks. As the days and weeks continues to pass by, the further will the assimilation into the practices of the group progress.

Experience is important but there is an old Swedish wording “vilja slår klass”, “the power of will, motivation, defeats knowledge and skill” freely translated. What I try to say is that the characteristics of the entrepreneur and his will of making his idea come true and create a business or company around it, is more important than the business skill that was implied in the theory. Management and organizational skills were present in a majority of the companies and together with the driving force of the “will”, the other areas of expertise were quickly learned or acquired in the companies investigated. Make sure that you either acquire or secure the experience that is needed to get the first order. But remember that it is equally important to deliver upon the expectation and the build subsequent business upon the first reference as it is to land the first contract.

The total lack of support for the benefits of lead users is for me not surprising. While working at Amersham Biosciences and GE Helathcare I came across many lead users and I have the same experience as Urban and Hippel (1988) describes when they raise the question and argue that lead users may express different needs compare to the mainstream, the broader market. Many of the lead users are well known and cited scientists but many of them are so far ahead of the rest of the community so their needs are too far from what the general market is looking after and willing to pay for.

6.4 Select Your Customers, how?

The theoretical statement regarding the selection of, what to look for, a reference customer is interesting, but it seems hard to execute upon the strategy. When I see the recommendation of what type of company to look for and also avoid for that matter, I can’t stop myself from wondering when this is an option?
I have yet to meet a manager of a start-up business or small company that I believe would have second thoughts of going into business with a large company with for example long payment terms. I agree that it is bad, highly questionable, almost criminal, to “squeeze” a small company but these issues can be solved. The payment terms are known before you sign the contract and there is help to get with the financing of your business, especially if you have a signed deal with a large well known company with a strong brand name. I’m not saying that all business is good business, remember the recommendations to protect your brand name, but I don’t believe that size and type is a problem. But at the same time the interviewees express the importance of having a customer with a strong brand name, so the acquisition of a customer with a strong brand name is obviously something to aim for and probably also build strategies for.

6.5 Never Stop Developing Your Company

A private investor, business angel, said during a lecture to future entrepreneurs on a Business Lab session at UIC, Uppsala Innovation Center, June 28 2010; “Never be a fat cat”. A fat cat is happy and satisfied with the current situation. In business this is quite dangerous if you’re looking for long term success.

If you have a new idea or technology which is starting to take market shares you can be sure that someone is watching you and will try the hardest to take your share and place in the market, competitors will almost always be present. You should never stop your efforts in developing your company but it should not focus too much on technology development. This is where many scientist starting businesses tend to fail.

I bring this up because one of my strong believes is that a business probably needs equally much or more development of the business than it needs development of the technology. This is also supported by the theory. Freel (1998) says many managers of start-up technology companies tends to concentrate on solving technological problems at the expense of product commercialization and Ostgaard and Birley (1996) have shown that entrepreneurs who spend time developing contacts with new investors has a larger chance of building high-growth companies.
When it comes to “soft money”, government funding, the Swedish program “VINN NU” issued by VINNOVA, states that half of the funding shall be used for business development activities. The “FOKUS Verifiering II” and the “VINN Verifiering” programs issued by Innovationsbron and VINNOVA require that a business developer is associated with the project in order to get funded. Innovationsbron will during next year go even further and require a business development coach also for the program “Verifiering för Tillväxt” targeting academic research projects to increase the chances that the ideas funded will review and investigate the business opportunities and later the commercialization process. This demand is expected to increase the probability of the project becoming a commercial business which what the “soft money” is intended to stimulate the creation of.

6.6 Recommendations for new Entrepreneurs

A lot has been investigated, analyzed and concluded so far but in I want to state my recommendations for new entrepreneurs based on the theory, investigations and the experience from working with small start-up companies and future entrepreneurs. There is no ranking or priority in the order of the recommendations and they could be considered guidelines for someone that is in the process to start a business.

- **Build and maintain your social capital and personal networks**
  
  Theory, the empirical study and my personal knowledge strongly suggest to focus on the networks and social capital, even if you don’t expect to become an entrepreneur. To secure the right people is also within this recommendation.

- **Focus on the business, even if the technology is more interesting**
  
  Without a good business plan including sale and marketing strategy, competitor analysis, business model budget etc, you will have hard time achieving the goals and increase the risk that you make a wrong turn and focus on the less important parts. When looking for financing, “soft money” and especially venture capital or other types of private investments, the business plan is necessity. Business development as described in the theory supports this recommendation.
• **Try to secure the first income to the company as soon as possible**

This investigation has focused on the importance of a first reference and the importance of a reference customer can’t be overstated. This is the proof of that someone is willing to pay for your product or service and that is important not only for the survival of the company but also for potential private investments. Beware of over-engineering! Improvements will always be necessary so try to get to the market and get paid as soon as possible. The 3 step process of Ruokolainen (2008) is very crisp and easy to follow and it is likely to keep the development of the company on track.

• **Sign up for business development programs through Business Incubators**

Business incubators, like UIC in Uppsala and STING in Stockholm, are established to support and speed up successful development of entrepreneurs into commercial companies using a wide range of tools and resources for business support like business training programs, IP management and support, accounting and financial management, business coaches and mentors just to mention a few. The set up differs but in Sweden it is in many cases a 3 to 4 step program that starts at an idea stage and progress through the steps and finally, if all goes well, reach the Alumni stage, where the company is making it on its own. Business incubators can be found all over the world.

### 6.7 Limitations and suggestions for further research

There are some limitations to the study that can be pointed out. The largest limitation is the sample size of the data. Less than 10 companies were interviewed and some of the suggested statements can’t be significantly neither confirmed nor denied. The study was also limited to one round of interviews. A second round of complementary questions based on findings on the first round would enhance the quality of the recommendations.

A study, with two rounds of interviews and a larger set of companies interviewed is suggested for further investigations. With a larger set of companies the division between product and service companies would be possible which is likely to present better knowledge and recommendations for the two types of businesses. It has been shown
already in this limited set that there exists significant difference regarding the type of collaborations established with the first reference customer.

The study used in depth interviews based on a frame work of questions in order to get deep knowledge of how the founders of the companies approached the start of the business and their thoughts and rationale behind the decisions made and strategies employed regarding reference customers. An alternative approach which with the data discovered during this research could be to use a structured questionnaire targeting a very large set of IT companies started in the last 10 years. With categorizing questions like; product, service or a combination of both in the offering; local, national or international market; etc, in combination with multiple choice and/or ranking questions regarding the importance and establishment of reference customers, the distinction between what is important in different types of markets and business propositions could be discovered.

This study targets the companies that were successful in surviving the IT crash of 2000. An investigation of how companies started at approximately the same time that are no longer in business approached the reference customers would give further insight to the importance of and strategy to secure the first reference.
References

Litterature


Articles


**Interviews**

Björn Berg, CEO and co-founder, Animech Technologies, Uppsala, 2010-03-19

Björn Sjöholm, CEO and co-founder, Europoint, Uppsala, 2010-03-04
Martin Björkman, CEO and founder, Drop, Uppsala, 2010-02-18
Martin Klöfver, CEO and co-founder, Trippus, Uppsala, 2010-03-05
Mats Östlund, CEO and founder, Consoden, Uppsala, 2010-03-10
Mikael Lundgren, EVP and co-founder, LeanOn, Uppsala, 2010-02-18
Niko Rosenquist, CEO and co-founder, NTier, Uppsala, 2010-03-18

About the companies

Appendix A – Framework Questionnaire

The following framework of questions was sent to the interviewees before each meeting. The framework was used during the interviews and complementary, follow-up, questions were asked depending on answers received during each interview. The exact Swedish wordings are in italic.

1. When did the business idea developed?
   *När uppkom affärsidén (tjänst, uppfinning, produkt etc)?*

2. Describe how the idea developed into a company.
   *Beskriv kort uppkomsten av idén/affären som sedan mynnade ut i företaget*

3. When was the company founded?
   *När startade företaget?*

4. How many people were there at start and what competences did they possess?
   *Hur många var med vid starten och vilka kompetenser besatte de [varje person kan ha flera kompetenser]? (tex ekonomi, marknadsföring, försäljning, utveckling, personalledning/ledarskap e.t.c)*

5. How did the company get their first customer? How was the selection process?
   *Hur fick företaget den första kunden? hur gick valet (urvalet) till?*

6. What is the name of the first reference customer?
   *Vilken var den första referenskunden (som använts i större omfattning för marknadsföring, referensinstallation e.t.c. för nya kunder)*

7. How did you collaborate? What were the business arrangements?
   *Hur såg samarbetet mellan er och referenskunden ut?*

8. Is the first reference customer still a customer? (still a reference customer?)
   *Är denna referenskund fortfarande kund (om ja, fortfarande referenskund?)*

9. What external expertise has been used when building the company?
   *Vilken extern expertis har ni använt i upphöjgnaden av produkten/affären?*

10. What business knowledge did you acquire from the first reference customer?
    *Vilka affärsmässiga (företag, organisation, processer e.t.c) kunskaper förvärvades genom den första referenskunden?*
11. Company facts (number of owners [now/at start], number of employees, number of active customers, financials [now/at start])

Företagsfakta (antal ägare[nu/vid start], antal anställda, antal aktiva kunder, finansiering [nu/vid start])
### Appendix B – Basic Data from the Companies Interviewed

<table>
<thead>
<tr>
<th>Business name</th>
<th>Short history</th>
<th>First ref C</th>
<th>Still C</th>
<th>Form of collaboration</th>
<th>Ext exp at start</th>
<th>Business KH / ref</th>
<th>Best recommendations</th>
<th>Business started</th>
<th>Reference customer</th>
<th>Owners</th>
<th>Owners at start</th>
<th>Employees</th>
<th>Active customers</th>
<th>Finance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Animech Technologies</td>
<td>A spin-off from Animech based on the idea to reuse the 3D CAD for after sales and sales support. Has the products aniPart and aniDimension with supporting services</td>
<td>GE Healthcare</td>
<td>Yes</td>
<td>Co-development, GE asked to develop the according to the idea.</td>
<td>Marketing and pricing, usability (UI)</td>
<td>No</td>
<td>1) Ref C should have a strong brand name 2) Relations and networks, good to have before but necessary to build at least when doing business so they can become a ref C 3) 1) and 2)</td>
<td>2001</td>
<td>2005</td>
<td>4</td>
<td>4</td>
<td>12</td>
<td>18</td>
<td>Own capital</td>
</tr>
<tr>
<td>Consoden</td>
<td>Mats was working in Australia for SAAB and upon returning to Sweden FMV wanted to purchase a military system. Lack of buyer competence for military systems in Sweden made it an opportunity to sale that service. 2 business areas: purchase support and systems development</td>
<td>FMV/SAAB-Ericsson Avionics</td>
<td>Yes</td>
<td>FMV</td>
<td>No products</td>
<td>Supply ordering competence and product development for military applications.</td>
<td>No, not the first company for Mats. His family are entrepreneurs</td>
<td>Ordering competence public procurement Security classified agreements, how to get the business</td>
<td>1997</td>
<td>1997</td>
<td>10</td>
<td>1</td>
<td>21</td>
<td>7 [or 11-18 if one count divisions]</td>
</tr>
<tr>
<td>Drop</td>
<td>Martin was working at UDAC as a consultant and trainer and when the need was decreasing M and a colleague got to keep the interface components developed. The framework for DB search in 4D, DropShell was developed before the company started. Has now the product FertSoft (fertility clinic software) and they do custom development for the 4D database.</td>
<td>UU and UDaC for 4D Carl V Linné kliniker</td>
<td>UU and UDaC none</td>
<td>UU and UDaC doctors Market the software and show it, word of mouth.</td>
<td>A lot, no entrepreneurs in the network, want to start your business” sources.</td>
<td>The domain knowledge of fertility clinic rules and regulations. Marketing towards physicians and embryologists.</td>
<td>1) Endurance, even the best idea take a lot of time to develop and make business of 2) The business networks are very important, develop and maintain 3) Be prepared for long and odd hours</td>
<td>1995</td>
<td>1996 + 1999</td>
<td>3</td>
<td>1</td>
<td>15 + 2 hourly employees</td>
<td>10 Fertsoft 10 DropShell</td>
<td>Own capital used ALMI loans in the beginning</td>
</tr>
<tr>
<td>Europoint</td>
<td>4 persons decided that they wanted to work in a smaller company (at Nexus at the time) and formed a business idea around Information security. BS started the company and later people followed. Supply “everything” regarding Information security except hardware.</td>
<td>Apostlekt</td>
<td>Yes</td>
<td>Supply advice, ordering competence, and consultants, usually project management. Product and supplier independent.</td>
<td>Economic advisory</td>
<td>No, not more than the “proof” that they could understand a new domain and deliver according to expectations.</td>
<td>1) References and networks, most new business come from old customers changing employment 2) Develop the individual, keep them attractive and challenged (certificates etc) 3) Company profile and reputation common profile and clear communication regarding skill and purpose.</td>
<td>2001</td>
<td>2001</td>
<td>31</td>
<td>31 not the same, can’t be passive owner.</td>
<td>9</td>
<td>Own capital</td>
<td></td>
</tr>
<tr>
<td>Business name</td>
<td>Short history</td>
<td>First ref C</td>
<td>Still C</td>
<td>Form of collaboration</td>
<td>Ext exp at start</td>
<td>Business KH f refK</td>
<td>Best recommendations</td>
<td>Business started</td>
<td>Reference customer</td>
<td>Owners at start</td>
<td>Owners at end</td>
<td>Employees</td>
<td>Active customers</td>
<td>Finance</td>
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<td>LeanOn</td>
<td>7 guys wanted to work with internet application which Telia Promotor didn't supply. So they resigned and started the company without any customers or assignments. LeanOn have the product LEIF and they supply system development consultants.</td>
<td>OMX via IT Arkitekterna as subcontractors</td>
<td>Yes</td>
<td>Contract development at first. Now they market and sell the platform LEIF developed with OMX. Today OMX is &quot;selling&quot; the products through their own usage, other want to integrate to OMX systems.</td>
<td>Yes, no knowledge of economy, marketing and sales. Contacts within the families and the networks were used like Father in law. Also used Centrum för Entreprenörsskap (2 year program), well worth the money and effort.</td>
<td>Domain knowledge - Transaction in the stock market.</td>
<td>1) Treat all assignments as potential references and try extra hard to win the &quot;PM-projects&quot; 2) Be honest and generous &quot;do no evil&quot; [Google slogan] 3) Get the right people, the wrong people will cost you a lot in many different ways</td>
<td>1997/98</td>
<td>20</td>
<td>2</td>
<td>25</td>
<td>General</td>
<td>Own capital</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>Diploma work at a consultant firm and realized it was easy to be a consultant. Started a company. Survived March 2000 but got &quot;hit&quot; in the second wave 2003 when they had to downsize from 16 to 8.</td>
<td>Jäkne meddelarlitet Ericsson DI DTZ</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Networks! 2) Be quick to explore &quot;windows of opportunity&quot; 3) Keep good references and CVs Sum: Build trust!</td>
<td>1995</td>
<td>2000</td>
<td>3</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>Trippus</td>
<td>Started in the IT era of 2000 and went from e-commerce to make a product for an intermediate service for the travel and living market with focus on group travel. Venture capital has come in 2003 and 2008.</td>
<td>MyTravel (Ving etc) Resia</td>
<td>Yes</td>
<td>Yes</td>
<td>Trippus delivered a product and customer Input was for new functionality. The company had the T&amp;L know-how in-house.</td>
<td>With external capital came business development and sales strategies/development</td>
<td>No</td>
<td>1) Put all energy into building relations and networks! 2) Make sure you are visible in the right foras and communities. 3) Have an experienced and diversified Board with good networks and special knowledge of your business.</td>
<td>2001</td>
<td>2005</td>
<td>10</td>
<td>2</td>
<td>10</td>
<td>approx 100</td>
</tr>
</tbody>
</table>