The Seven Habits of Highly Effective Start-Ups

Inc.'s editor lists seven characteristics of start-up companies that increase their chances of survival. Plus, a look at the types of experts most likely to predict a start-up's success.

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It was 11 years ago last month that we published our first Anatomy of a Start-up, and we knew right away we had a winner. On the one hand, the format offered a splendid opportunity to showcase some of the most interesting new ventures around--businesses that revealed something about the world at large or about the start-up process itself. Beyond that, Anatomy allowed us all to play venture capitalist and compare our own assessment of a company's prospects with the opinions of the experts whose comments we published with each article.

The formula hasn't changed much over the years, as you can see from the Anatomy in this issue (" **The World's Oldest Start-up**"). Meanwhile, the series has continued to grow in popularity. And now comes a fascinating article in *The Journal of Business Venturing* that seeks to glean some lessons from the experiences of 27 start-ups featured in the Anatomies we published from February 1988 through September 1990.

The article was sent to me by Bill Gartner, an old friend of the magazine's and a professor at the Marshall School of Business at the University of Southern California, and is based on research he did along with two colleagues. Their goal was to identify "predictors of new-venture survival"--that is, individual characteristics or practices that enhance the likelihood that a start-up will survive at least four years.

As it turned out, 17 of the 27 companies were still in business at least four and in some cases seven years later, a 63% survival rate. To determine what factors made a difference, the researchers compared the 27 companies using numerous variables. Of all those variables tested, only seven proved to be reliable predictors of survival. Here, in my words, are those seven habits of highly effective start-ups:

1. Have a founder who is ready, willing, and able to learn on the job during the start-up process.
2. Devote an unusually large amount of time and effort to working with established suppliers and subcontractors.
3. Pay very close attention to new entrants and potential competitors.
4. Get your positioning right at the beginning so that you don't have to spend a lot of time later on determining the business's identity.
5. Make sure you have ready access to whatever capital you may need so that you don't have to spend a lot of time raising money.
6. Offer customized products or services that are designed or produced to order.
7. Choose a growth industry.

Most interesting is one variable that did *not* turn out to be significant: a founder's prior industry experience.

The researchers also evaluated the accuracy of our Anatomy experts in predicting whether or not a given start-up would make it. The results:

Category	**% of accurate predictions**
Industry experts	**55%**
Competitors	**55%**
Venture capitalists/financiers	**40%**
Customers	**38%**

Not only did the venture capitalists have a relatively low accuracy rate, according to the article, but they were also more likely to predict that a start-up would fail "without offering any recommendations for how the venture might be changed to improve its chances for survival." Surprise, surprise...

You have to bear in mind, of course, that those results are based on just 27 case studies. What's more, we chose the companies in question for our Anatomy series not because we considered them representative of all start-ups but because we thought our readers would be interested in them.

Still, the study does jibe with tons of other academic research showing that no single factor can be considered a reliable predictor of start-up success. Taken together, moreover, the seven "habits" listed above were highly accurate predictors of survival among the companies that were studied. How accurate? If you were to use the habits as a screen, you'd be able to predict accurately 85% of the time whether or not one of the companies in the survey would survive for at least four years.

And that's more than twice as reliable as asking a venture capitalist.