

# The Accelerators

Startup mentors discuss strategies and challenges of creating a new business.

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12:01 pm ET  
Jun 24, 2013

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## Steve Blank: The 6 Types of Startups

ARTICLE

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**STEVE BLANK:** When I started teaching, I thought all entrepreneurs and startups did what I did for 21 years – aim for billion-dollar markets and keep at it until you achieved liquidity or ran out of money.

It turns out I was wrong.

The reality is that while we have only one word for “startup,” there are six varieties: lifestyle, small business, scalable, buyable, social and inside a large company. The founders who start these are all “entrepreneurs.” But there are significant differences between the people, funding and strategies involved. Not understanding those differences can screw up your chance of success.

### Lifestyle Startups: Work to Live Their Passion

On the California coast where I live, lifestyle entrepreneurs are like surfers, teaching surfing lessons to pay the bills so they can surf some more. Lifestyle entrepreneurs live the life they love, work for no one but themselves and pursue their personal passion. The Silicon Valley equivalent is the journeyman coder or Web designer who loves the technology and takes coding and U/I jobs because it is a passion.

### Small-Business Startups: Work to Feed the Family

The overwhelming number of entrepreneurs and startups in the U.S. today are still small businesses. This category consists of grocery stores, hairdressers, consultants, travel agents, Internet commerce storefronts, carpenters, plumbers, electricians, etc. They are anyone who runs his or her own business.

Small-business entrepreneurs work as hard as anyone in Silicon Valley. They hire local employees or family. Most are barely profitable. Most small businesses are not designed for scale — the owners want to own their business and feed the family.

Their only available capital is their own savings, what they can borrow from relatives and **banks**. Small-business entrepreneurs don't become billionaires and don't make many appearances on magazine covers. But in sheer number, they are infinitely more representative of “entrepreneurship” than entrepreneurs in other categories—and their enterprises create local jobs.

### Scalable Startups: Born to Be Big

Scalable startups are what Silicon Valley entrepreneurs and their venture investors aspire to build. Google, Skype, Facebook and Twitter are just the latest examples. From day one, the founders believe that their vision can change the world. Unlike small-business entrepreneurs, their interest is not in earning a living but rather in creating equity in a company that eventually will become publicly traded or acquired, generating a multi-million-dollar payoff.

Scalable startups require risk capital to fund their search for a business model, and they attract investment from equally crazy financial investors – venture capitalists. They hire the best and the brightest. Their job is to search for a repeatable and scalable business

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For aspiring or actual entrepreneurs, The Accelerators forum is a lively discussion among startup mentors— entrepreneurs, angel investors and venture capitalists. To reach us: [@wsjstartup](#) or [theaccelerators@wsj.com](#).

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model. When they find it, their focus on scale requires even more venture capital to fuel rapid expansion.

### Buyable Startups: Acquisition Targets

In the past five years, the cost and time required to build Web and mobile apps has plummeted. You can get to product/market fit and a million users with \$100,000 to \$1 million. Many of these startups bypass traditional VCs by using crowd or angel funding. In some cases, while they might be able to build a billion-dollar business, the lack of traditional venture-capital investors (and nosebleed valuations) takes away the pressure of the “swing for the fences” liquidity goals. This class of startup is likely to be sold to a larger company for \$5 million to \$50 million. The founders and investors walk away with millions but not billions.

### Social Startups: Driven to Make a Difference

Social entrepreneurs are no less ambitious, passionate or driven to make an impact than any other type of founder. But unlike scalable startups, their goal is to make the world a better place, not to take market share or to create wealth for the founders. They may be organized as a nonprofit, for-profit or hybrid.

### Large-Company Startups: Innovate or Evaporate

Large companies have finite life cycles. And over the past decade, those cycles have grown shorter. It's already becoming clear that lean startup practices are not just for scalable and buyable startups.

Corporations have spent the past 20 years increasing their efficiency by driving down costs. But simply focusing on improving existing business models is not enough anymore. Almost every large company understands that it also needs to deal with ever-increasing external threats by continually innovating. To ensure their survival and growth, corporations need to keep inventing new business models. This challenge requires entirely new organizational structures and skills.

### So What?

Each of these six very different startup types has different financial goals, requires different teams and uses different financing strategies.

Yet what they all have in common – every one of them – is that in the last few years we've come to see that **we had been building startups inefficiently**.

Investors treated startups as smaller versions of large companies. We now understand that's just not true. While large companies execute known business models, startups are temporary organizations designed to search for a scalable and repeatable business model.

This insight has begun to change how we teach entrepreneurship, incubate startups and fund them.

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2:10 pm June 27, 2013

**Biz guy** wrote:

This article is short and is useful in categorizing the aspirations of different folks that start businesses. This perspective is useful to all who contemplate entrepreyrial activities in order to clarify where they are truly headed too.. i think Biz girl is guilty of what she attributes to the article:shallow, superficial and stupid.

3:39 pm June 24, 2013

**Biz girl** wrote:

This article has 3 ingredients: shallow, superficial and stupid.

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