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An Analysis on Pivots made by start-ups

This paper focuses on various types of pivots carried by start-ups. It links various types of Pivots to a start-up maturity life cycle and tries to answer questions like which pivots are made during which stages of the life cycle, which pivot is made more frequently, what are the external and internal factors that leads to a successful pivot, what are the reasons or motivations behind carrying a pivot and also tries to link pivots to various quadrants of the Balance Score Card (BSC). It also lists some major observations in terms of pivoting in various phases of BSC quadrant and provides recommendations on what should be done to make a pivot a success.

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5/27/2016

Introduction:

A pivot is making a change in the strategy without a change in vision. A pivot, then, could be defined as changing the process a company uses to accomplish the same goals. Pivoting becomes common in start-ups because many times it may happen that what the company is doing may not work and it needs an entirely new idea or start from the scratch to attain the desired goals. Hence, a genuine pivot allows for a fresh perspective on the company and prevents the startup from being stagnant and outdated. Hence, the main focus of this research is analyzing the different types of pivots made by the start-ups during its life cycle and what are the external and internal features that affect the success or failure of these pivots. There are mainly 10 different types of pivots and these are described as follows:

I. **Zoom In Pivot**

In zoom in Pivot Earlier it was just considered a single feature of product, but that single feature is the one around which the product strategy will be designed. In simple terms emphasis is now on only one single feature.

II. **Zoom Out Pivot**

This type of pivot changes are done when one single feature of product is deemed insufficient hence an organization decided to broaden its horizon and concentrate on more than one feature of the product .It's like going from one to many .

III. **Customer segment Pivot**

These type of pivot are bought upon when a organization want to change its target Earlier it may be targeting a different segment of customer but now it wants to target totally different segment of customer.

IV.   Customer Need Pivot

Customer Need Pivot is done according the customer needs, that is the feedback they receive from the customers and then the changes are bought upon. A famous example is the chain Potbelly Sandwich Shop, which today has over 200 stores. It began as an antique store in 1977; the owners started to sell sandwiches as a way to bolster traffic to their stores. Pretty soon they had pivoted their way into an entirely different line of business.

V.   Platform Pivot

Platform Pivot is simply the shifting your operating base, for example Myntra when it was launched was a desktop based website but later they shifted to completely an app based entity and now again they have shifted to desktop version.

VI.   Business Architecture

Companies mainly follow one of two major types business architectures: high margin, low volume or low margin, high volume The High margin, low volume is associated with B2B, and the latter with consumer. In a business architecture pivot, a start-up switches architectures. Some companies switches from high margin, low volume by going mass market, originally designed for the mass market, turned out to require long and expensive sales cycles.

VII.   Engine of Growth

In Engine growth pivot, a company changes its growth strategies to achieve faster or more profitable growth. It is commonly used to capture how the value of the company as well.

VIII.   Value Capture

There are many ways to capture the value a company creates. These methods are referred to commonly as monetization or revenue models. In reality, capturing value is an intrinsic part of the product hypothesis. Often, changes to the way a company captures value can have far-reaching consequences for the rest of the business, product, and marketing strategies.

IX.   Channel Pivot

In traditional sales terminology, the mechanism by which a company delivers its product to customers is called the sales channel or distribution channel. For example, consumer packaged goods are sold in a grocery store, cars are sold in dealerships, and much enterprise software is sold (with extensive customization) by consulting and professional services firms. Often, the requirements of the channel determine the price, features, and competitive landscape of a product. A channel pivot is a recognition that the same basic solution could be delivered through a different channel with greater effectiveness.

X.   Technology Pivot

A company discovers a way to achieve the same solution by using a completely different technology. Technology pivots are much more common in established businesses. In other words, they are a sustaining innovation, an incremental improvement designed to appeal to and retain an existing customer base.

One other important reason for organizations to carry pivots is the improvement they want to bring in their Balance Score Card (BSC). It was introduced by Kaplan and Norton in 1992. It is a strategy performance management tool-a semi-standard structured report, supported by design methods and automation tools, which can be used by managers to keep track of the execution of activities by the staff within their control and to monitor the consequences arising from these actions.

This is a main tool that helps the organization in translating its vision and mission in a more strategic way and represents how they are spread through the four main quadrants of an organization. These quadrants are represented in the figure below:
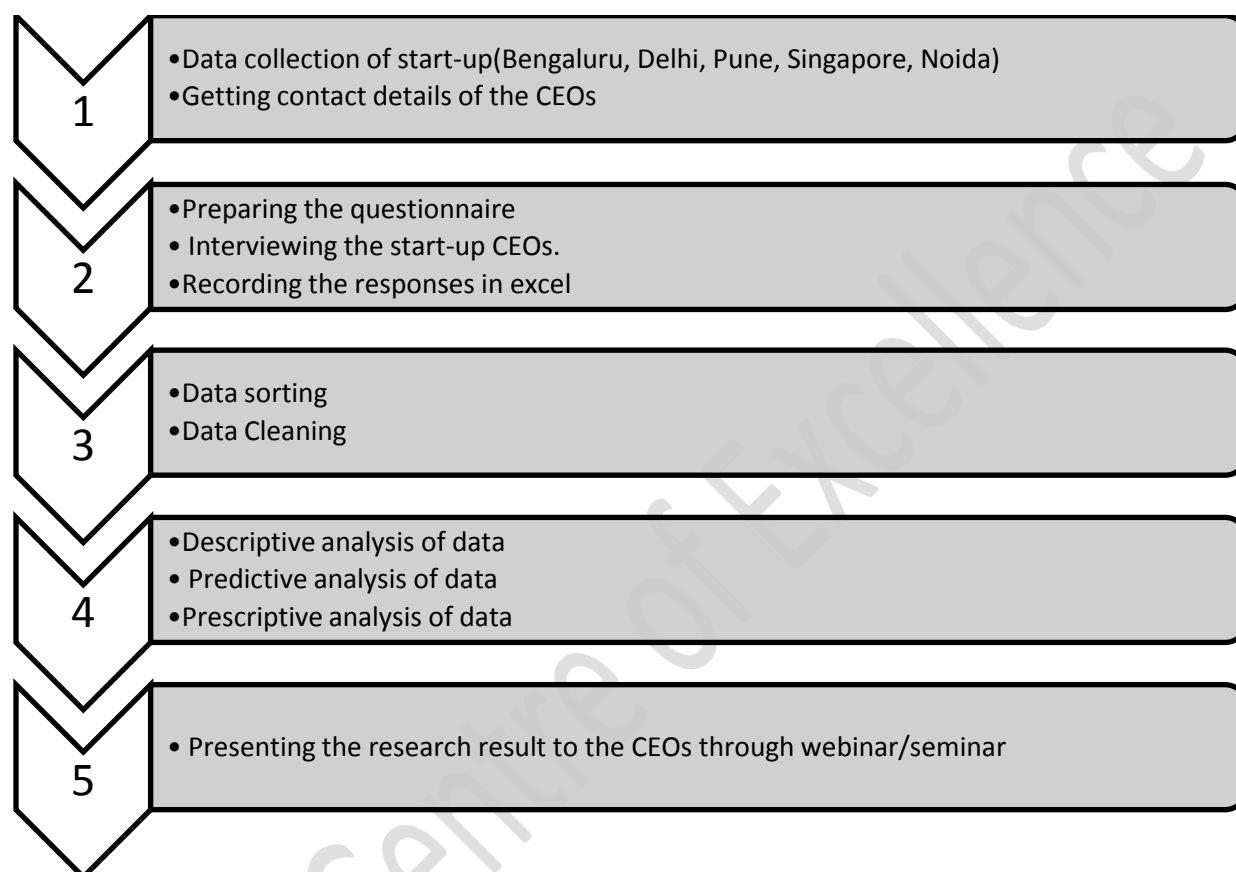
Figure 1

Balance Score Card (BSC) retains financial metrics as the ultimate outcome measures for company's success, but supplements these with metrics from three additional perspectives-customer, internal process, learning and growth.

This research also tries to link various pivots to various quadrants of the BSC in order to find what quadrants are given major focus by start-ups in order to improve the organization performance.

Methodology for Research:

1	•Data collection of start-up(Bengaluru, Delhi, Pune, Singapore, Noida) •Getting contact details of the CEOs
2	•Preparing the questionnaire • Interviewing the start-up CEOs. •Recording the responses in excel
3	•Data sorting •Data Cleaning
4	•Descriptive analysis of data • Predictive analysis of data •Prescriptive analysis of data
5	• Presenting the research result to the CEOs through webinar/seminar

Descriptive Analysis of factors affecting Pivots:

The big question....What is the Motivation behind carrying a Pivot?

The basic and the biggest question for start-ups is what is the motivation of start-ups behind bringing out a pivot change. This research has helped in answering this most important question. It's important to address this question because only when an organization understands its true source of motivation, it can carry a successful pivot.

Figure 2

The above figure **(Figure 2)** shows the main motivation that was found by this research and they are further explained as below:

Customer Needs

One of the basic reasons of pivoting is satisfying customer needs. To satisfy those needs of customers pivoting is done.

Provide better product/Service

Another reason for pivoting is providing the customer with better product /service, adding extra features to improve the experience the customers are having currently.

Increase Number Of customer

The other reason is that organizations want to increase its fair share of revenue, to garner more profit than what they are currently generating they focus on increasing the customer base.

Provide more options

Sometimes the sole motive is to provide customers with more options, to enhance their experience and for that pivoting is done.

Competition /Market

Another important reason is the increasing competition within the industry, hence to attract more customers for themselves and creating a brand identity which distinguishes them from others, it becomes important for the start-ups to differentiate its products/services from those that are already occupying good market share and hence to achieve this goal pivoting becomes important.

Factor Analysis throughout Pivots:

In order to find the effect of internal and external factors on the success and failure of pivots, 31 internal factors and 10 external factors were taken into account.

The 31 internal factors used for analysis were as follows:

- Sustainability of the business model

- CSAT/ NPS Score

- Type of process

- Type of applications/system tools

- Competency

- Incubation Center(R&D)

- Financial Management

- Cash Flow

- Pricing Strategy

- Market Segmentation

- Product/Service Differentiation and Positioning

- Brand Attractiveness

- Stakeholder Buying

- Revenue Growth Rate / Profitability / Runway / Burn rate

- Business Process turnaround time

- Productivity (Human Capital Value Added)

- Risk Mitigation Efficiency (Financial/People/Legal)

- Wastage (Resources, Cost, Time)

- Execution Agility (Earned Value, Iteration Velocity, Sprint Burn down)

- Customer Acquisition: Viral Co-efficient; Referral Count; Funnel Metrics

- Customer Retention Rate / Churn Rate / Repetition / Life Time Value

- Product/Market Fit

- Employee Retention

- Employee Engagement

- Competency Growth

- Revenue Per Employee

- Innovation Metrics: Innovations per Employee

- Innovation Metrics: Revenue generated per Innovation

- Resource Allocation and Utilization

The 10 external factors used for analysis were as follows:

- Market Changes (keeping up with consumer desires)/Global Market

- Investor turnover/Cash and Financing

- Customer needs(the focus should not be on what customer should want, instead the focus should be on what customer needs)

- Customer feedback on Minimum Viable Product

- Technological Changes

- The extent of competition in the current market segment

- Channels/ Network Issues

- Demand/Supply Changes

- PESTEL Coverage

- Demography

CEOs were asked to prioritize these internal and external factors by ranking top 10 internal factors and top 5 external factors that they felt were important for the success of their pivots. Rank 1 was given to a factor which was the most important and ranks 10 to the least important factor. Based on the ranking given to factors, an average score was calculated for each factor. The final ranking was done based on the average score obtained and the number of responses received by a factor. For example, if a factor received 20 responses and its average score was 1.25 compared to another factor that received 19 responses but had an average score of 1.09,

then the factor which received 20 responses will be given a higher rank as compared to the other factor.

Based on the above methodology the ten most important internal factors were:

1	**Product/Service Differentiation and Positioning**
2	**Market Segmentation**
3	**Brand Attractiveness**
4	**Sustainability of the business model**
5	**Type of process**
6	**Competency**
7	**Cash Flow**
8	**Revenue Growth Rate / Profitability**
9	**Execution Agility**
10	**Productivity (Human Capital Value Added)**

NOTE: The number in the pentagon arrow denotes the rank given to the factor. The factor with rank '1' is the most important.

The five most important external factors are:

1	**Customer feedback on Minimum Viable Product**
2	**Customer Needs**
3	**Demand/Supply Changes**
4	**Global Market**
5	**Competition**

NOTE: The number in the pentagon arrow denotes the rank given to the factor. The factor with rank '1' is the most important.
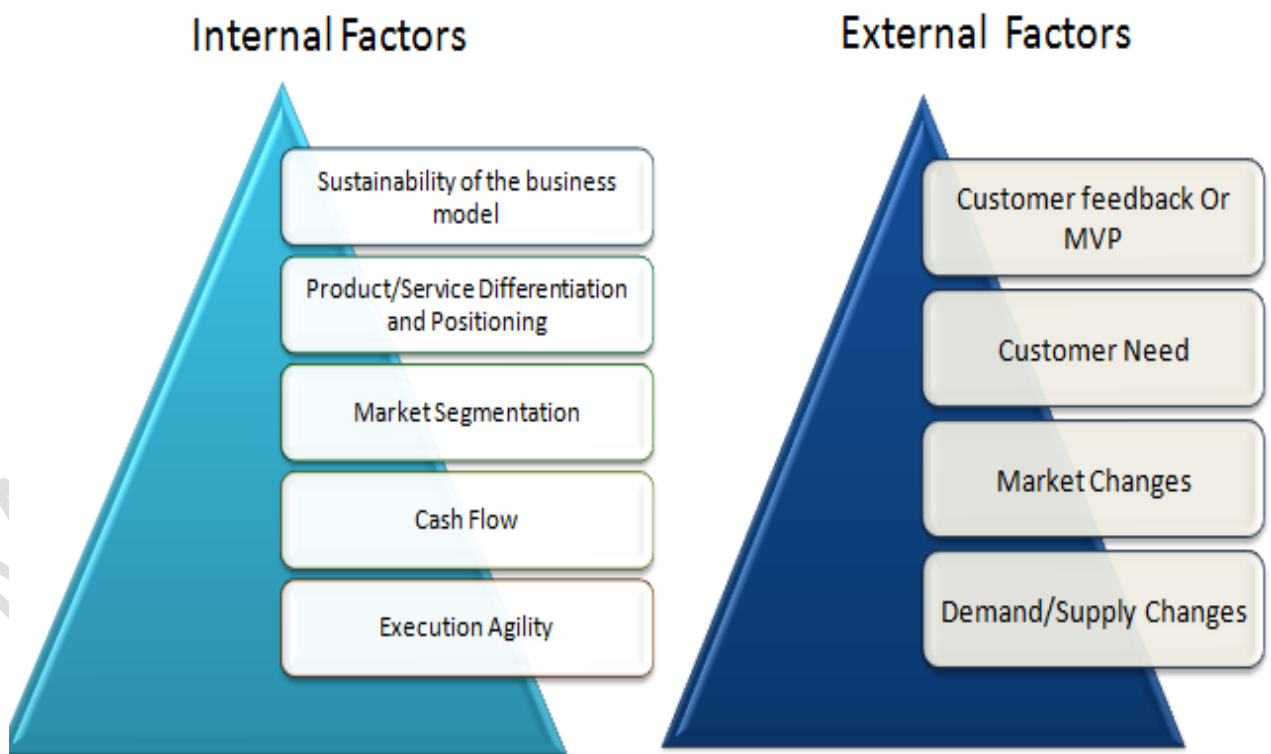
The above analysis showed the most important internal and external factors throughout the 10 pivots. But apart from this, there were three types of pivots that had the maximum response. These were:

- Customer Need Pivot
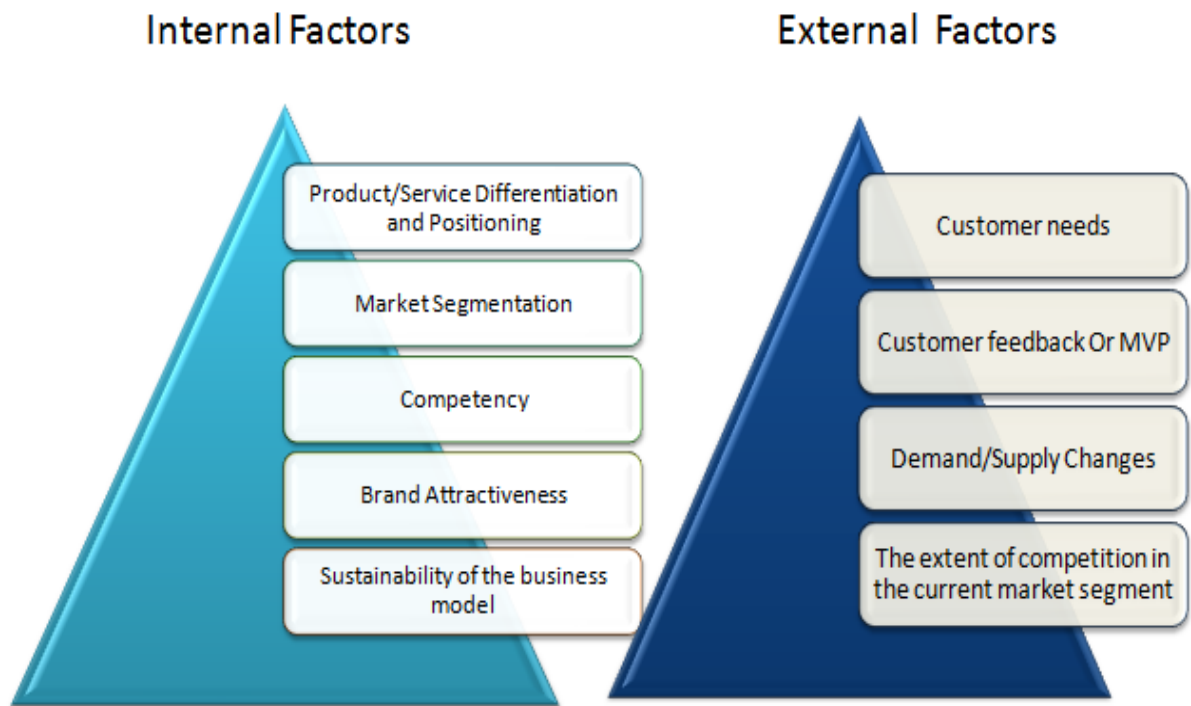- Customer Segment Pivot
- Zoom Out Pivot

Hence, the internal and external factors that were most important for these three pivots were separately analyzed using the same methodology described above. The results obtained for these are as follows:
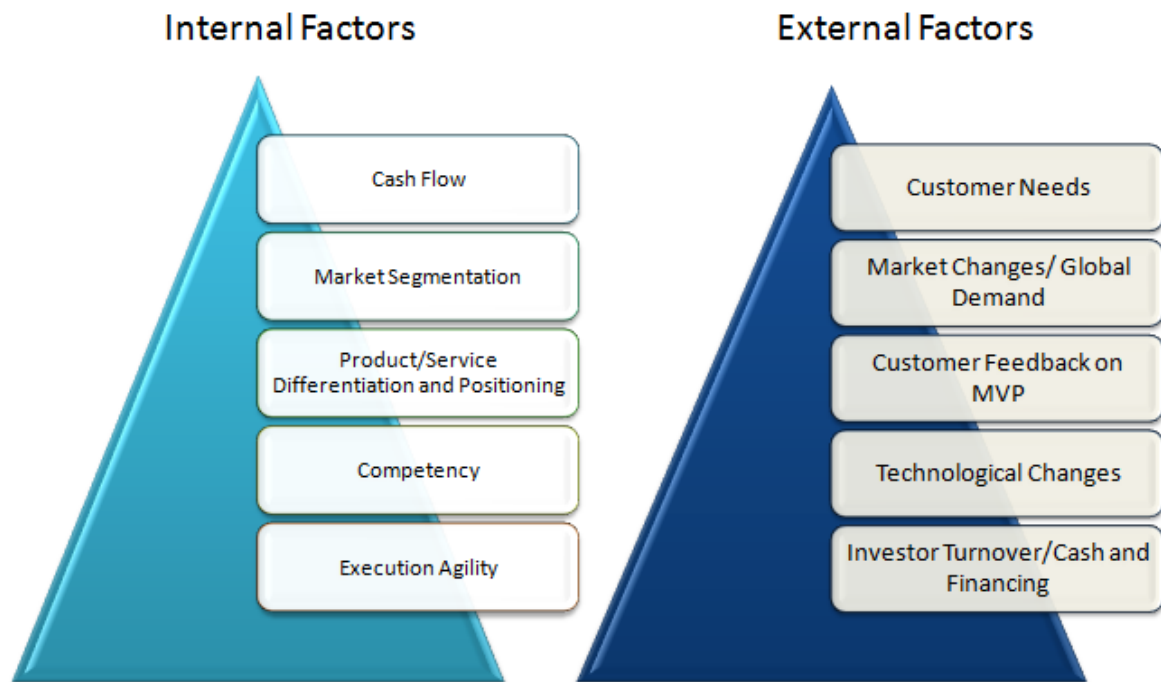
- **Customer Need Pivot:**

Internal Factors

- Sustainability of the business model
- Product/Service Differentiation and Positioning
- Market Segmentation
- Cash Flow
- Execution Agility

External Factors

- Customer feedback Or MVP
- Customer Need
- Market Changes
- Demand/Supply Changes

Figure 5

▪ **Customer Segment Pivot:**

Internal Factors   External Factors

Internal Factors
- Product/Service Differentiation and Positioning
- Market Segmentation
- Competency
- Brand Attractiveness
- Sustainability of the business model

External Factors
- Customer needs
- Customer feedback Or MVP
- Demand/Supply Changes
- The extent of competition in the current market segment

Figure 6

▪ **Zoom Out Pivot:**

Internal Factors

- Cash Flow
- Market Segmentation
- Product/Service Differentiation and Positioning
- Competency
- Execution Agility

External Factors

- Customer Needs
- Market Changes/ Global Demand
- Customer Feedback on MVP
- Technological Changes
- Investor Turnover/Cash and Financing

Figure 7

Note: The factors in the pyramids in Figure 5, 6 and 7 are arranged in decreasing order of their importance. The factor present above has a higher rank and hence is more important to the factor present below

Predictive Analysis of Pivots based on Start-up Life cycle and BSC:

Type of pivots in different stages of a Start-Up life cycle:
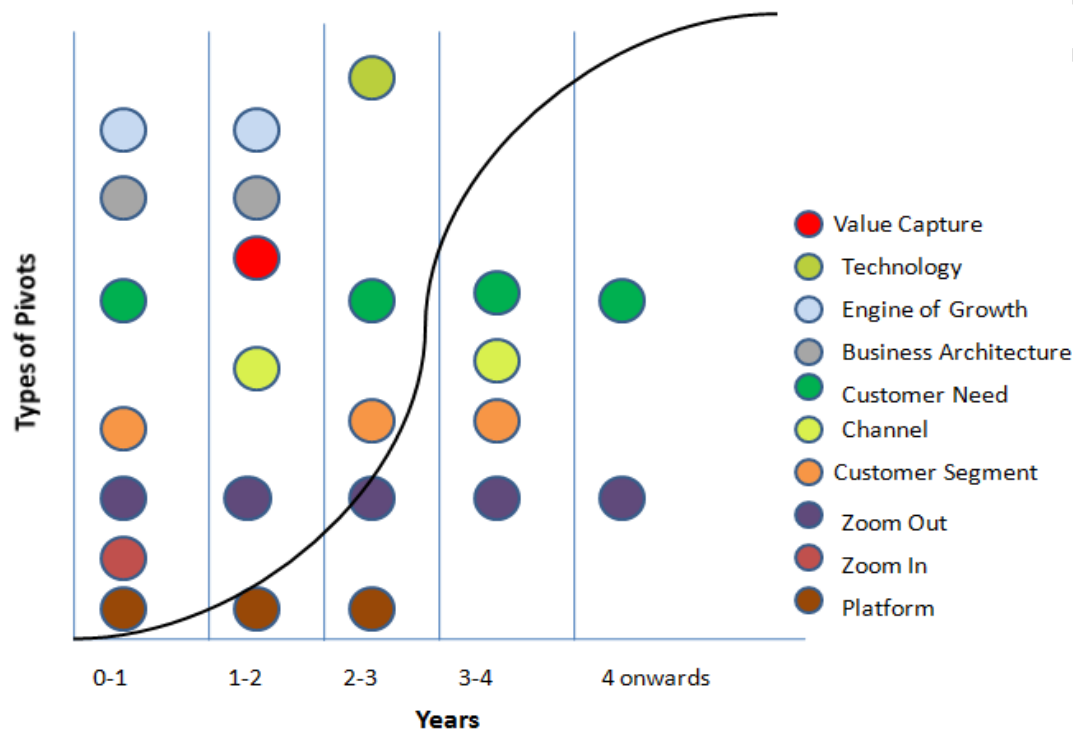
Figure 3

Every start-up goes through various stages in its life cycle. In general the main four stages in the maturity life cycle of start-ups are **Introduction, Growth, Maturity and Decline**. During these stages, start-ups make different types of pivots after being motivated by the reasons described in the above section.

Figure 3 depicts the different type of pivots that are done in different span of time (0-1, 1-2, 2-3, 3-4 and 4+ years)

From the figure, following things can be inferred:

- The major concentration of various types of pivots is in the initial 3 years of the lifecycle, as it can be see that 7 different types of pivots were made in the year 0-1, 6 in the year 1-2 and 5 in the year 2-3.

- The number of pivots made by start-ups after first 3 years then decreases and very less pivots are made 4 year onwards. Hence it can be concluded that start-ups mainly focus on carrying pivots in the initial stages of their life cycle as compared to the later stages.

- Also, it can also be seen that **Zoom Out Pivot** is the one that has been made throughout and has its presence in all years (from year 0 to year 4 and onwards). Hence it can be inferred that there is a trend to add more features in the products/services provided by start-ups in order to gain competitive advantage instead of simplifying the products/services.

- After Zoom Out Pivot, it is the **Customer Need Pivot** that is given major focus as it is also made mostly in all stages of a start-up life cycle. Hence, it can be said that Zoom Out and Customer Need Pivots are the most prevalent pivots for start-ups.
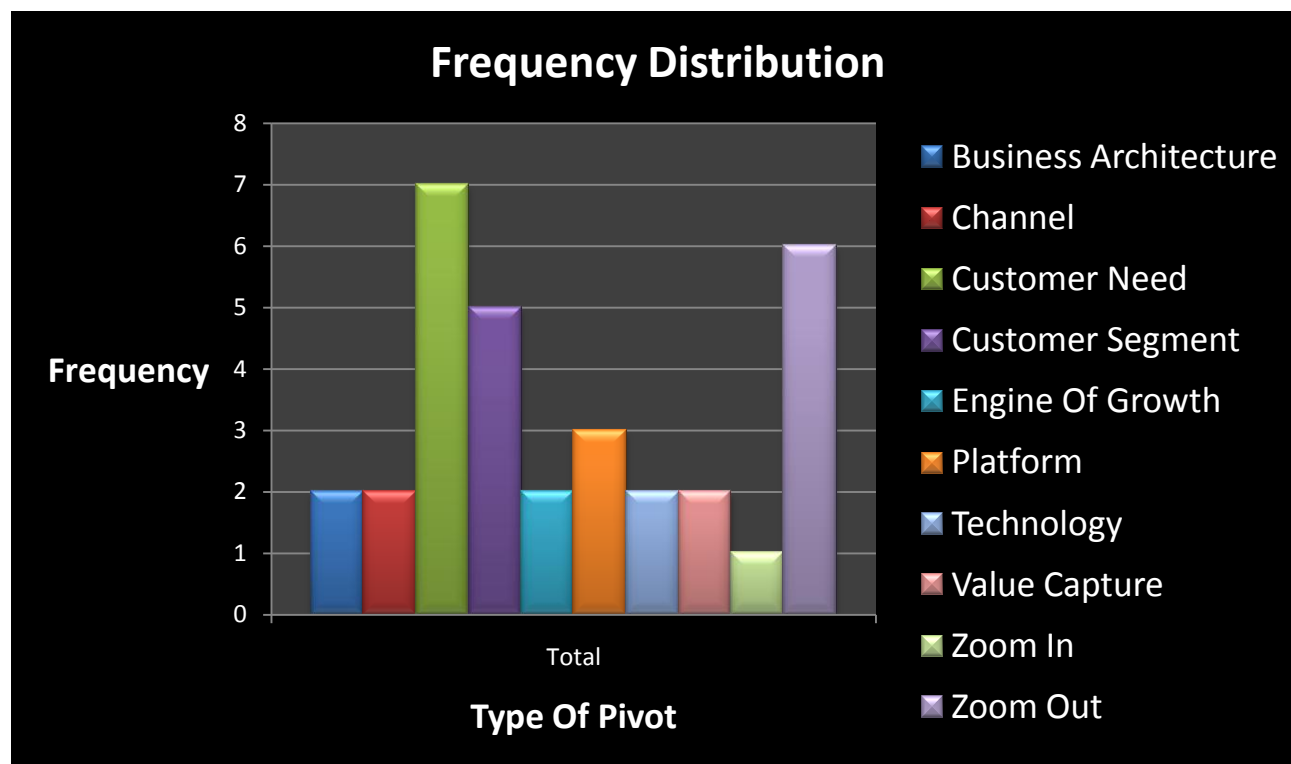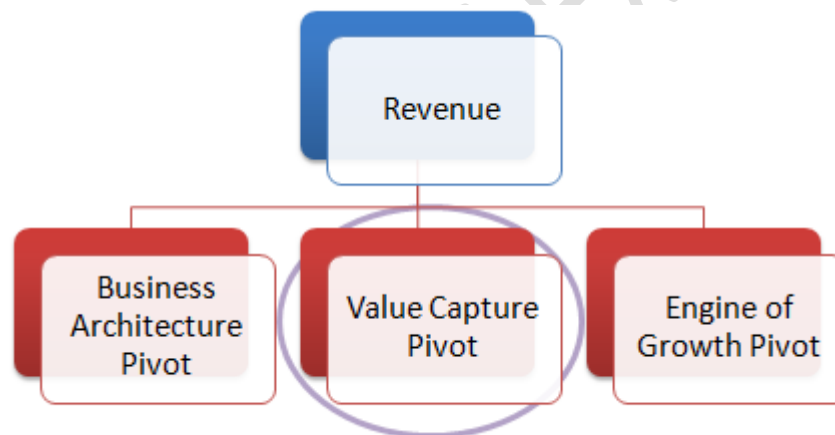
Figure 4

Figure 4 shows the frequency distribution of various types of pivots made by the organization that were taken for this research purpose.

Hence, in terms of frequency also, it can be seen that **Customer Need**, **Zoom out, Customer Segment Pivots have** occurred the maximum number of times as can be deduced from the first graph .**Customer need Pivot has been selected by respondents 7 times, Zoom out 6 times and Customer segment pivot has been selected by 5 times** across the life cycle. Thus finding is also consistent with our previous discussion that **Zoom Out** and Customer **Need Pivots** are the most prevalent pivots.

Linking Balance Score Card with the types of Pivots:

As described in the previous sections, Balance Score Card (BSC) is a strategy performance management tool that is used by the organizations in translating its mission and vision in a more strategic way. Hence, when companies make pivots, they do so to improve their performance keeping in mind these four quadrants of the BSC to achieve a holistic improvement.

This research project has helped in getting an insight on the types of pivots organizations are making in these different quadrants. Also, it showed that not all pivots are made in each quadrant and not all quadrants are given equal importance. Some quadrants were given more focus than the others and similarly some pivots were made more frequently than the others.
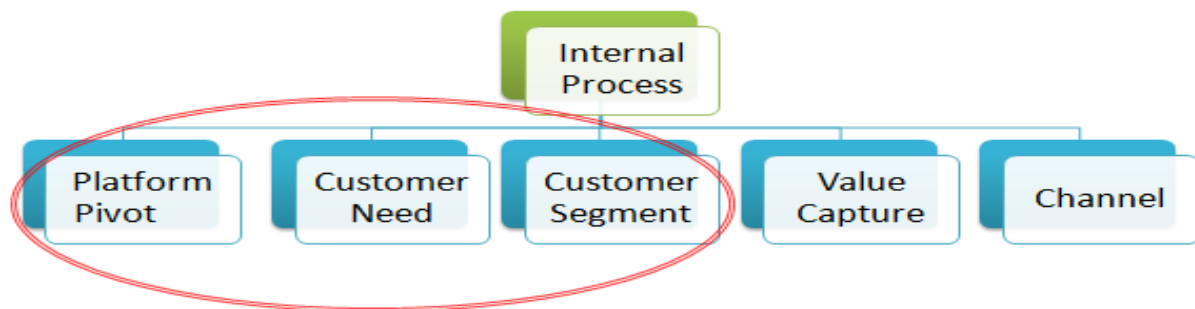

Figure 8

Under the **Revenue quadrant** of Balance Score Card **(Figure 8)**, the most used pivots were Business Architecture, Value Capture and Engine of Growth. Of that the most important Pivot or which was carried most number of times was **Value Capture**. Similarly Under the **Customer satisfaction quadrant** (below **Figure 9**) 5 pivots were carried out regularly .Customer Need, Customer segment, Channel Pivot, zoom in, Zoom out. Out of **that Customer Need, Customer**

segment and channel are the most used and is the most important ones.
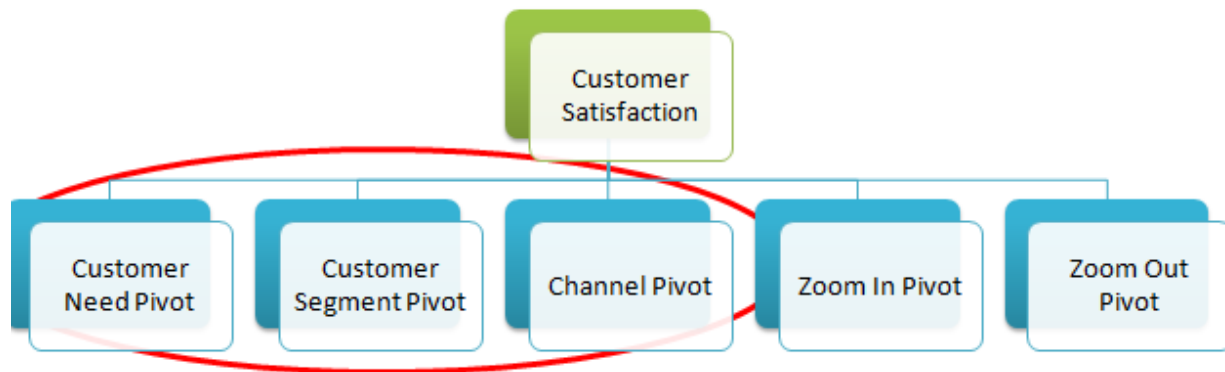
Figure 9

In case of **Internal Process Quadrant**, the major pivots carried out were Platform Pivot, Customer Need Pivot, Customer Segment Pivot, Value Capture Pivot and Channel Pivot as shown in **Figure 10**.
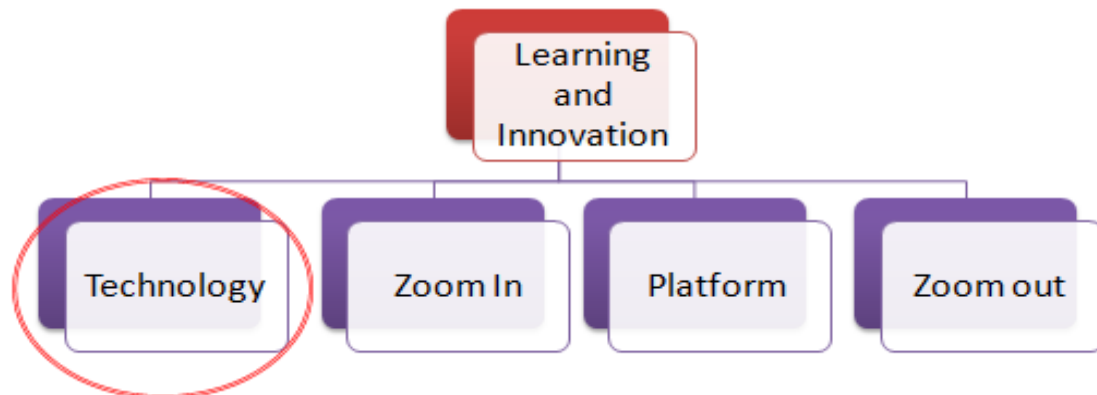

Figure 10

The Pivot encircled in red are those that were made more frequently and were given more importance compared to others for Internal Process quadrant. Hence Platform pivot, Customer

Need pivot and customer segment pivot were done majorly to improve the performance of internal process quadrant.

Similarly, in **Learning and Innovation,** the major pivots made were Technology pivot, Zoom In pivot, Platform pivot and Zoom Out pivot as shown in **Figure 11**.

Figure 11

The Pivot encircled in red are the one that was made more frequently and was given more importance compared to others for Internal Process quadrant. Hence Technology pivot was done majorly to improve the performance of Learning and Innovation quadrant.

Prescriptive Analysis based on BSC Quadrants:

Observation and Recommendation for Internal Process and Learning and Innovation Quadrant:

Observations

- ▪ **Validation Testing** was done by all the respondents.

- **Agile strategy** was followed by the company, for executing the strategies they formulated

- Financial Enablers found its way at the top of the list in an organization for a pivot change followed by Technical Enablers.

- Innovation every time does not guarantee successful pivot always.

- Previous market experience played an important role in the success of a pivot.
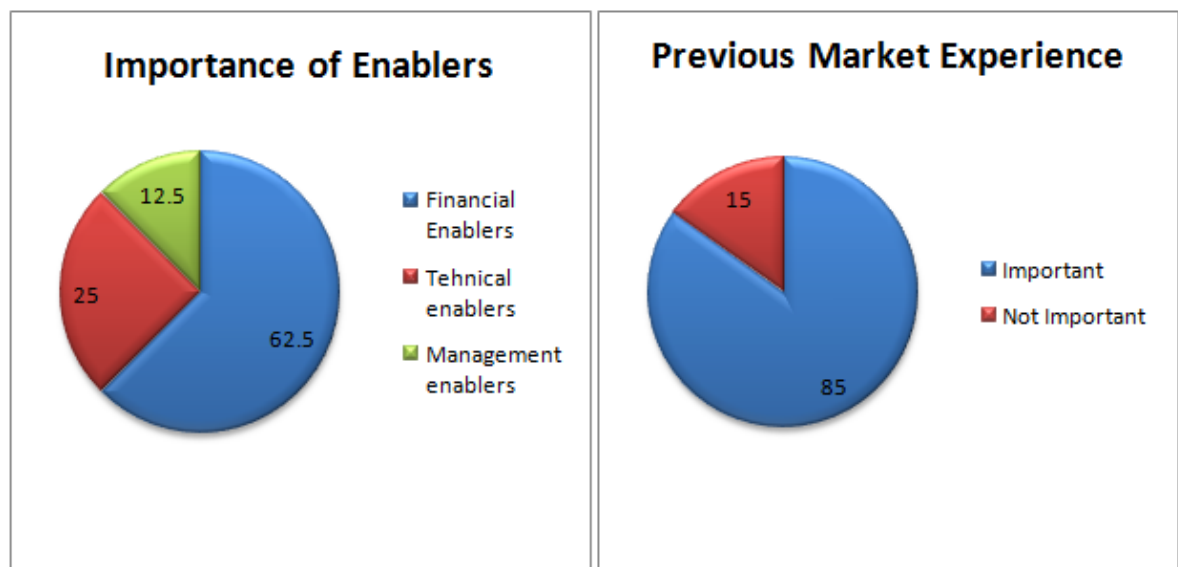
Recommendations

- Doing Validation Testing before doing a making a pivot is advisable, it gives a lot of insights beforehand about the threats and opportunities one can face. It is always viable, feasible and advisable to do validation testing.

- Emphasis should be on following an Agile strategy , for executing the overall strategy one need a fixed strategy, but the sub steps/strategies of this fixed strategy needs to be agile.

- Most important are the Financial Enablers in an organization for a pivot change followed by Technical Enablers. It can help out on giving you a road map to successful pivot.

- Innovation every time does not guarantee successful pivot always, sometimes it expends a lot of energy and resources without making a major difference in the success of pivot.

- Previous market experience plays a important role in the success of a pivot ,It helps greatly in secondary and primary research which will be very helpful while pivoting

Observation and Recommendation for Revenue Quadrant:

Observation:

- Major macroeconomic factors like Inflation, Deflation, Interest rates, Social changes and taxation are not important because these factors affect all the organizations to the same extent. It is mainly competition that drives the organization to carry a pivot in order to improve their revenue.

- Also, to improve the revenue and to capture more value, companies positioned their products differently. Some companies changed their business model from a B to C to a B to B. Favorable market conditions helped in the success of these changes.

- Others added more categories to the product to improve their profitability.

- Investor support was important in carrying the pivot but it was not "the most" important factor. For example, in some organization, presence of experienced people, improved technologies and the ability to provide actionable insights to customers also played an important role in the success of pivots and to improve revenue growth.

Recommendation:

- Keep an eye on market competition because that is the most important external factor because it directly influences the type of pivot made by an organization. Hence the pivot carried by an organization should be such that it improves the competency of the organization in the market.

- It's advisable to have a flexible business model and product positioning so that it can be changed based on the prevailing market conditions to capture more value and to improve the profitability.

- Instead of depending on a generic approach to identify the factors important for an organization for a successful pivot, every organization should do its own company analysis to find the factors important for it to carry a successful pivot. It is because every organization is different and the factors that work for one organization may not work for the other. Hence using a generic approach is not recommended.

Customer Satisfaction:

Observation:

- The presence of compliments and supplements did effect the pivot because it either affected the market strategy companies used to target a customer segment or their

presence helped in boosting the adoption of their products by the customers. For example, the presence of smart phones acted as a compliment for one computer software based Retail Company. Also, it had a positive effect on the types of pivots carried by the organization.
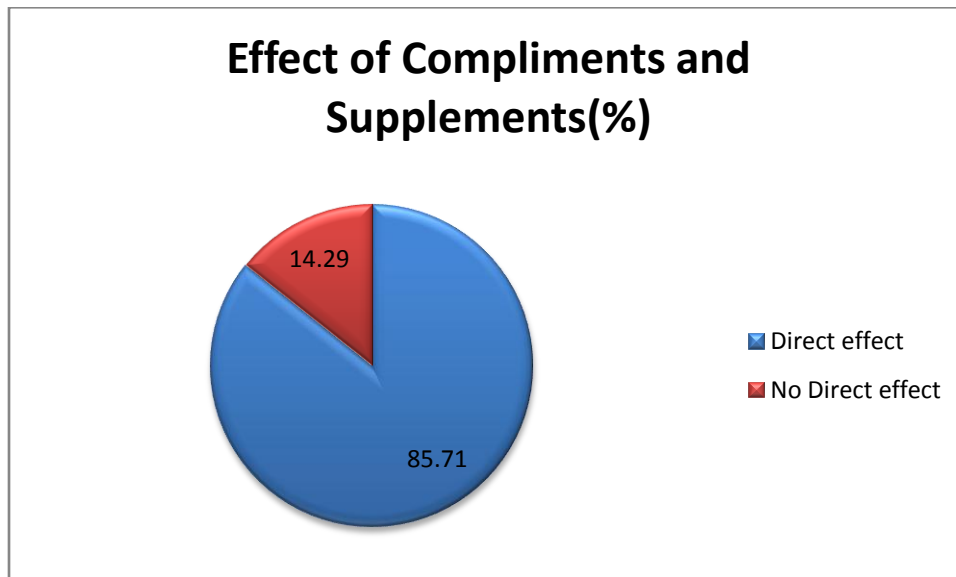

- Customer feedback and prioritizing customer problems to carry a successful pivot was important in most of the cases because mainly the need for pivot came from customers. For example, one internet based education company was selling its platforms to educational institute but later on they realized that their true customer are students and their major problem is reaching out to great tutors and hence they changed their business model from a B2B to a B2C model.

- But there were some companies where prioritizing customer problems was not very important. Although such companies were not able to make a successful pivot because of their lack of market research. But they also admitted that it is not important that

research will not always help because sometimes the amount of time and resources dedicated to carry a research can make a business non profitable.

Importance of Customer Feedback(%)
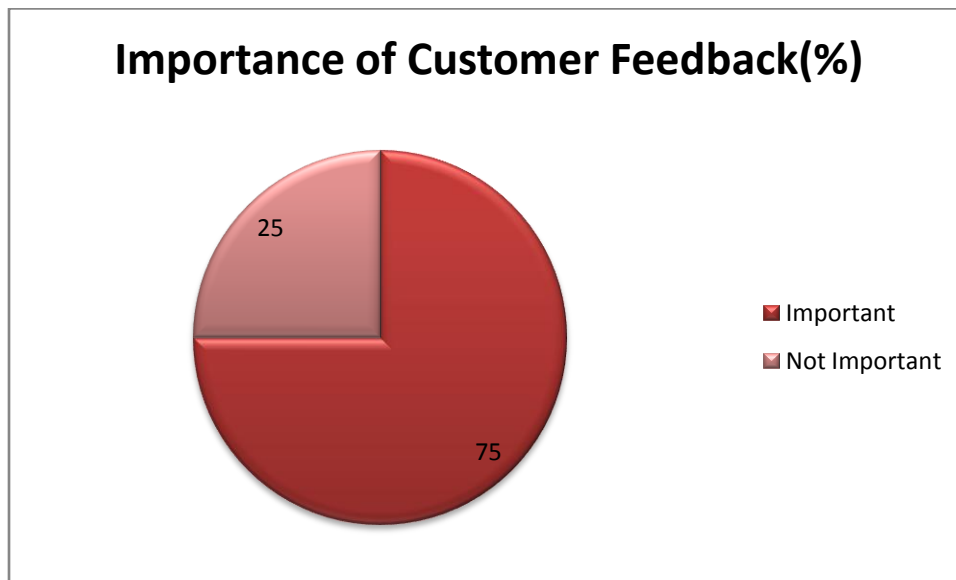
- Similarly, considering user's initial reaction for the success and failure of pivot was important, but not always.

- Companies mainly have some success parameters in place for every product/service they launch and if user's initial reactions do not meet these parameters, only then the pivot is made.

- But even this is not the case every time and if success parameters are met to some extent (but not completely) then pivot is not made because it shows that there is **a product and market fit.**

- In other cases this factor is not important, because the pivots are mainly market driven or companies are providing enterprise solutions where initial user's reaction is not very important.

Importance of User's Initial Reaction(%)

- Important
- Not Important
- Others

(50, 33.33, 16.67)
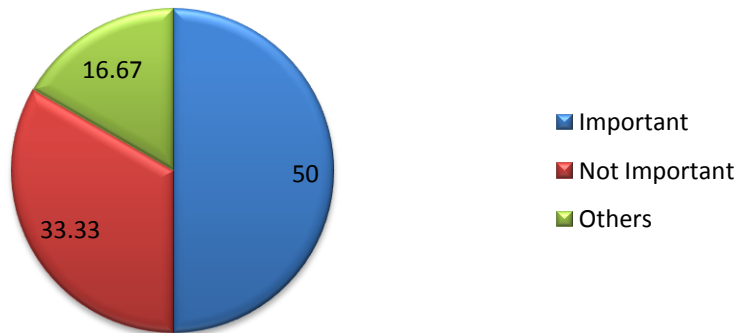
- Also the main reasons for introducing new products/ services are mainly engaging new customers, up sell or cross sell the product/ service and to provide customers with more options.

- Also to increase the customer satisfaction they have done both i.e. simplification of products or addition of more features. But adding more features to products was a general trend found among all organizations, irrespective of the industry.

Recommendation:

- Be aware of various compliment products present in the market because it can directly help in boosting the adoption or sale of a company's product or service. Similarly it is also advisable to be aware of supplements as it is a major market threat and hence can make a product or service obsolete. Also the knowledge of supplements can be advantageous as it can help the company in understanding how they can differentiate their product or service from the already existing alternatives. This knowledge can play a very important role in making a successful pivot.

- It is advisable to have customer feedback and to prioritize customer problems because it provides insight to organization on what a customer wants and can prevent the organization to make a product that have no use for customers. But they should make such research by keeping into consideration their capability. Hence, it can be said that it is "Planned Research" that is good and beneficial for the organizations.

- Define success parameters for the products and services and also define till what percentage the achievement of such success parameters will indicate a product market fit. Such knowledge will provide clear indication to the organizations when they should go for a pivot.