

Economics in Brief



No. 67, 10th February 2015

Sought, found, rejected – how new entrepreneurs come up with their ideas

Author: Dr Georg Metzger, phone +49 (0) 69 7431-9717, research@kfw.de

One quarter of Germans could imagine becoming self-employed but a good third of them lack the business ideas to do so.ⁱ It is not easy to identify a business idea: Four out of ten "dropouts" abandon their start-up plan during the idea stage. Nonetheless, some 868,000 people started their own business in 2013. The KfW Start-up Monitor 2014 shows how they came up with their business ideas.

A market niche was identified by 53% of new entrepreneurs (see left graph), while just under half of new entrepreneurs (49%) view self-employment as the typical form of employment in their profession (for example doctors, architects, sales agents or restaurateurs). Both statements apply to one in every four new entrepreneurs: They are self-employed "as is typical of the profession" and are filling a niche in the market.

External stimuli often help to identify ideas: 44% of new entrepreneurs implemented the suggestions of a third party. For teams of entrepreneurs, suggestions made by others – possibly subsequent partners –

were important for the business idea in 51% of the cases. Own experience, professional or personal, is significant for many new entrepreneurs (44%). Some 41% of new entrepreneurs decide to improve an existing product or service. Almost as many have taken on existing ideas without changing them (39%).

Current technology trends, however, only played a role for just over one in every five new entrepreneurs (22%), while only 15% relied on their own inventions. We also see that one in every twenty new entrepreneurs picks up on a current technology trend to market their own invention.

Idea influences realisation

A viable business idea is important in terms of whether a start-up is actually implemented. If self-employment is typical of the profession, start-up plans tend to be carried through. Accordingly, self-employment was only typical of the profession in 26% of the cases where plans were discarded. Business ideas from third parties tend to be im-

plemented (26% of those discarding plans). Most frequently we find that those discarding their plans refer to their own experience as the basis for their business idea, which indicates that there is more to self-employment than just that.

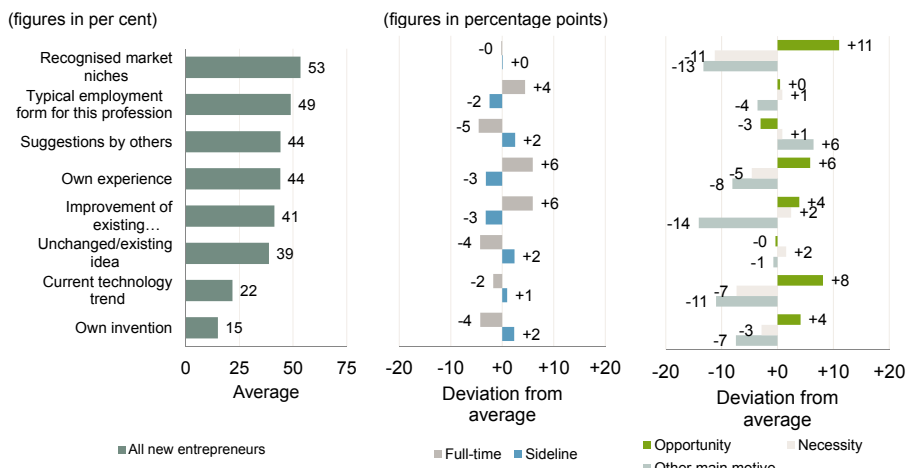
Full-time and sideline entrepreneurs similar in terms of identifying ideas

Although there are many similarities between full-time and sideline entrepreneurs in terms of how they come up with their business ideas, self-employment is more often the typical form of employment in the profession for full-time entrepreneurs (see middle graph). Own experience and the desire to improve an existing product or service are more important for them than for new sideline entrepreneurs. Sideline entrepreneurs, however, more often pick up on the suggestions of others and are more likely to adopt an existing product or service unchanged. Nonetheless, own inventions are more important for their business ideas. Inventors presumably use the non-binding nature of sideline businesses to test the market readiness of their ideas.

Start-up motives influence ideas

New entrepreneurs who choose to become self-employed on the basis of a specific business idea (opportunity entrepreneurs) fill market niches, pick up on technology trends and implement their own experiences or inventions more frequently than other new entrepreneurs (see graph on right). This reflects the greater potential of their projects. By contrast, these attributes are less important for the business ideas of new entrepreneurs who are moving into self-employment due to a lack of alternatives (entrepreneurs out of necessity). They only produce a similar result when they have business ideas involving the improvement of an existing product or service. New entrepreneurs with another main motive – i.e. not opportunity or necessity – listen most often to the suggestions of others. ■

Figure: New entrepreneurs exploit market niches – opportunity entrepreneurs lead the way



Note: The question read: "What is/was your business idea mostly based on?"

Data source: KfW Start-up Monitor

ⁱ Relative to all those not self-employed; Metzger, G. (2015), Where there's a will there's a way? Hurdles on the road to self-employment, Focus on Economics No. 82, KfW Research, Frankfurt am Main, February 2015.