Matias Huhtala

Mapping decisions in startup settings: Case Rafla

Need for Seed

School of Management
Master's Thesis in
Strategic Business Development

Vaasa 2024

VAASAN YLIOPISTO
School of Management
Tekijä: Matias Huhtala
Tutkielman nimi: Mapping decisions in startup settings: Case Rafla - Need for Seed
Tutkinto: Master of Science in Economics and Business Administration
Ohjelma: Strategic Business Development
Ohjaaja: Jukka Partanen
Vuosi: 2024 **Sivumäärä:** 57

TIIVISTELMÄ:

Täydellisessä maailmassa kaikki on pinkkiä, tasaista ja ennustettavaa. Kuitenkin alati läsnä on schumpeterialainen “luova tuho”, joka tarjoaa propellipäille mahdollisuuden luoda uutta liiketoimintaa ja luoda arvoa sen moninaisissa muodoissa. Näin ollen äärimmäisen epävarmuuden, monimerkityksellisyyden, volatiliteetin ja kognitiivisen stressin vallitessa eritoten startup-yrittäjien toimesta tulevaisuus muokkautuu uudenlaiseksi. Kun kyseessä on markkinat, jotka ovat vasta muokkautumassa, tieto on hyvin pirstaleista, jolloin ihmismieli on herkkä monille ajatttelun vinoumille. Näitä vinoumia voidaan kutsua sateenvarjotermillä heuristiikka. Monien nyrkkisääntöjen, yksinkertaisten sääntöjen ja muiden nopeiden/helppojen ratkaisujen johdosta todellisuus tuntuu olevan hallinnassa kaoottisessa toimintaympäristössä. Tämä pro gradu- tutkielma tarkastelee erilaisten nyrkkisääntöjen vaikutusta liiketoimintamallin kahden peruspilarin, asiakasryhmien ja arvolupauksen muodostumista 17 kuukautta kestäneen kvalitatiivisen toimintatutkimuksen metodien avulla alkuvaiheen startupin matkassa. Tekijä toimii sekä startup-yrittäjänä että tutkijana tässä tutkimuksessa, jossa ainesto kerätään startupin pääviestintävälineen Slackin keskusteluista. Keskustelut ja niissä tehdyt päätökset ovat todennettu case-yrityksen muista digitaalisista työkaluista (mm. Google Workspace). Nämä kaksi peruspilaria määrittelevät tässä tapauksessa suuresti kuinka yrityksen on jatkossa mahdollista saada alkuvaiheen rahoitusta. Rahoituksen saaminen on yksi tärkeimmistä edellytyksistä startupin nopeaan kasvuun valitulla markkinalla, sinisellä merellä, jossa vakaana pyrkimyksenä on purjehtia muita nopeammin haluttuun suuntaan.

AVAINSANAT: päätöksenteko; heuristiikka; yrittäjyys; startupit; liiketoimintamalli

UNIVERSITY OF VAASA
School of Management
Author: Matias Huhtala
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Degree: Master of Science in Economics and Business Administration
Programme: Strategic Business Development
Supervisor: Jukka Partanen
Year: 2024 **Pages:** 57

ABSTRACT:
In a perfect world everything would be pink, stable and predictable. However, constant Schumpeterian "creative destruction" prevails offering startup founders opportunities to earn economic rent. Therefore, under conditions of extreme uncertainty, ambiguity, volatility and cognitive stress yet-to-be-made future is built by the startup founders. Prevailing chaos in the entrepreneurship domain due to evolving markets and changing customer preferences are causing human cognition to be prone to various flaws. These flaws are acknowledged to be helpful in majority of cases because flaws (e.g. heuristics, biases and other mental shortcuts) make the uncertainties feel more under control. After all, a rational person might not like to guess possible with serious financial consequences. This thesis taps into how various heuristics alter the case company's (i.e startup called Rafla) two building blocks in its business model during the 17-month action research whereas the author acts both as a co-founder and an researcher. The data (i.e. chats between the co-founding team) is collected from case company's main communication platform Slack and analysed and verified with the help of other documentation (e.g. Google Workspace). Two building blocks of the business model, more precisely, customer segments and value proposition, are defining fundamentally how the the startup is able to get funding. The funding its various forms is key for the early-stage startup to grow rapidly in its intended nascent market, the blue ocean, and how fast it might sail to its desired destination faster than competitors.

KEYWORDS: decision-making; heuristics; entrepreneurship; startups; business model

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1 Introduction

The amount of venture capital (VC) funding into startups has declined in the last few years. However, the funding in all its variations (VC, private equity, bootstrapping, family, friends and fools) is much needed. Looming challenges, such as climate change, aging population and geopolitical risks are calling for novel ways solutions. Startups are among the most promising avenues among human organizations to rapidly answer to challenges: *"Upstarts are challenging the old guard, some of whom are struggling feverishly to reinvent themselves"* (Osterwalder & Pigneur, 2010, p. 4). However, despite the importance of startups for the global economy (Baldassarre et al., 2020), approximately two-thirds of the startups fail (Berg et al., 2018; Eisenmann, 2021).

The context of the entrepreneurship (Alvarez & Barney, 2007; Sarasvathy, 2001; Shepherd et al., 2015; Sirén et al., 2012) and startups (Baldassarre et al., 2020; Berg et al., 2018; Blank & Dorf, 2020; Osterwalder et al., 2014, 2020; Osterwalder & Pigneur, 2010; Ries, 2011; Ulwick, 2018) is a fast-paced and dynamic environment in a constant flux full of novel opportunities (Amit & Zott, 2001; Falchetti et al., 2022; Joseph & Wilson, 2018; Ott & Eisenhardt, 2020). Despite the critique toward prescriptive and non-academic handbooks them being subjective based on personal experience and opinions rather than empirical evidence (Berg et al., 2018), for instance, Steve Blank's (2020) and Eric Ries's (2011) personal know-how on startups has aided numerous startup founders to rapidly test their ambitious ideas (Unterkalmsteiner et al., 2016) with the help of minimum viable products (MVPs) more resource-efficiently and focus on customer development instead of product/software development (Ries, 2011; Blank 2020; Blank & Dorf, 2020).

Methodologies, tools and thinking devices aiding startup founders such as lean startup (Maurya, 2012; Ries, 2011), design thinking (Brown, 2008; Liedtka, 2018), growth hacking (Ellis & Brown, 2017) and rapid development cycles used first at Google Ventures (GV) called sprints (Knapp et al., 2016) are among the frameworks that might be useful when creating the product-market fit under conditions of extreme uncertainty.

Consequently, the human thinking devices in the form of models, frameworks and methodologies are the ways founders are utilizing to test the unknowns labeled as hypotheses by Blank (2020) in the desired business model (Amit & Zott, 2001; Baden-Fuller & Morgan, 2010; Casadesus-Masanell & Ricart, 2010; Doz & Kosonen, 2010; Matzler et al., 2013; Osterwalder et al., 2005; Storbacka et al., 2013; Teece, 2010, 2018; Zott et al., 2011; Zott & Amit, 2008, 2010, 2007) that, in many cases, is formed with a help of Business Model Canvas (Osterwalder & Pigneur, 2010).

However, there is growing interest in entrepreneurial activity (Shane & Venkataraman, 2000) and its effects on the global economy (Eisenmann, 2021). Decision-making in startup settings (Ott & Eisenhardt, 2020) is difficult due to the rapidly changing elements in the external business environment (Shepherd et al., 2015) but human cognition sets boundaries (Kahneman, 2011) for opportunity exploitation (Bryant, 2007). There are various heuristics and biases (e.g. framing, anchoring, loss aversion, overconfidence and overoptimism) entrepreneurs are tumbling upon (Kahneman, 2011; Kahneman & Tversky, 1979, 1984; Tversky & Kahneman, 1973, 1974), but also utilizing successfully (Dew et al., 2009). Thus, entrepreneurial thinking is coined as *"effectual reasoning"* (Sarasvathy, 2006). The author sheds light on how entrepreneurial thinking, effectual reasoning, differs from *"causal reasoning"*, more typical to non-entrepreneurs (i.e. strategists, managers, executives and established business owners). Consistent with Sarasvathy's (2006, p. 9) seminal paper on entrepreneurship: *"In fact, to the extent that the future is shaped by human action, it is not much use trying to predict it – it is much more useful to understand and work with the people who are engaged in the decisions and actions that bring it into existence.*"

In a pursuit to understand the decisions, actions and things undone, this thesis taps into the question of what are the decisions and actions that bring the ideas of a yet-to-be-made future into existence and focuses on heuristics (Kahneman, 2011; Dew et al., 2009) which alter the business model formation in startup settings.

There is a research gap in the entrepreneurship, business model and strategy literature

that is visible in the various case studies conducted within the academia (Ott & Eisenhardt, 2020). Thus, the case studies (single or multiple cases) focus on startups with funding (i.e. pre-seed, seed, A, B, C, D series) and there is no evidence of what might happen before external capital injection to focal startup (Ott & Eisenhardt, 2020; Shepherd et a., 2015; Shane & Venkataraman, 2000). Consequently, this thesis intends to shed light on various decisions altering business model configuration and customer development activities. Furthermore, the sharp focus is on activities that are altering the nine building blocks of the BMC (Osterwalder & Pigneur, 2010), and what heuristics or decision-making logic could be identified during the research period. This thesis taps into the research gap by providing the following research question (RQ):

RQ: How do heuristics alter the business model formation in startup settings?

To answer the research question, research is conducted as action research starting in April 2022 and ending in September 2023, thus considering all the decisions made in 17 months mapped into a Business Model Canvas. During the action research, the empirical evidence is collected from the case company's digital communication application Slack and digital working platform Google Workspace. The data is collected to analyze the decision-making practices during the action research. Therefore, this thesis intends to contribute to the entrepreneurial decision-making stream focusing on exploiting the opportunities and considering the heuristics entrepreneurs tend to use in complex and uncertain nascent markets (Ott & Eisenhardt, 2020; Shepherd et al., 2015; York & Danes, 2014).

This thesis is divided into five chapters. The first chapter introduces the topic, research questions, and the structure of the thesis. The literature review exhibits the framework of the thesis based on selected literature in the fields of psychology, entrepreneurship and strategic management in the second chapter. The third chapter presents methods and scientific orientation through which the research is carried out during the longitudinal study of the case company, Rafla Enterprises (rafla.io). The findings are

discussed in the fourth chapter. Lastly, the Discussion chapter concludes the implications for startup founders, theoretical contribution, suggestions for future research and limitations of the study.

2 Literature review

The literature review is divided into three subcategories. First, the 2002 Nobel Prize winner Daniel Kahneman (2010) and his colleague Amos Tversky provide the decision-making mechanisms from a psychological perspective shedding some light on human cognition and its flaws. Thereafter, entrepreneurship and entrepreneurial decision-making in startup settings are presented to showcase the context where individual founders are making decisions. Lastly, a strategy tool (Vuorinen et al., 2018) in the form of Business Model Canvas (BMC) is presented to grasp the business model rationale that the startup founders often use in their pursuit of maximum impact (i.e. value in its various forms) of the venture.

2.1 Decision-making in startup settings

"Making decisions is like speaking prose – people do it all the time, knowingly or unknowingly." (Kahneman & Tversky, 1984, p. 341)

Numerous decisions are made daily (e.g. what to eat or not, what to wear or not, what to do or not etc.). Also, the options to choose from are almost infinite on many occasions. Despite the context the decisions are made, there are similarities in human cognition that characterize decision-making processes. For instance, a judgment under uncertainty (Tversky & Kahneman, 1974) is exhilarating in terms of the applications it offers for several veins of research of management, strategy and entrepreneurship (e.g. (Furr & Eisenhardt, 2021; Ott & Eisenhardt, 2020; Schwenk, 1984; Shane & Venkataraman, 2000). Thus, one could argue that tapping into human cognition as a source of decisions made is essential. Consistent with Sarasvathy's (2006, p. 9) seminal paper on entrepreneurship: *"In fact, to the extent that the future is shaped by human action, it is not much use trying to predict it – it is much more useful to understand and work with the people who are engaged in the decisions and actions that bring it into existence.*"

2.1.1 Mechanisms of decision-making

Whether human action might shape the future or not (Sarasvathy, 2006), the decisions are made by humans in the organizations whereas daily operations inherently include risk, uncertainty, ambiguity, scarce resources and constant change (cliché but true). In 2002, Daniel Kahneman earned the Nobel Prize in Economics for his work on prospect theory (investopedia.com; nobelprize.org) which discusses decision-making under conditions of uncertainty and risk, especially through financial outcomes (Kahneman, 2011). Furthermore, Kahneman and Tversky (1974) distinguish in their early work three heuristics (i.e. simple rules, rules of thumb or mental shortcuts) deployed in decision-making under uncertainty: representativeness, availability of instances of scenarios and anchoring. However, as aforementioned heuristics are labeled as counterintuitive, fast and processed by System 1 (Kahneman, 2011), these heuristics might lead to severe errors and hazardous behavior (Tversky & Kahneman, 1974). Still, acknowledgment of these heuristics might prevent them from occurring or at least one is aware of the possible outcomes these heuristics might cause.

Tversky and Kahneman (1974, p. 1124) illustrate *representativeness* with a description of Steve: *"Steve is very shy and withdrawn, invariably helpful, but with little interest in people, or in the world of reality. A meek and tidy soul, he has a need for order and structure, and a passion for detail."* What might be Steve's occupation from the list of a farmer, pilot, sales specialist, librarian or physician? To answer the question, Tversky and Kahneman (1974, p. 1124) elaborate: *"In the representativeness heuristic, the probability that Steve is a librarian, for example, is assessed by the degree to which he is representative of, or similar to, the stereotype of a librarian."* As such, this focal example presents a common bias in thinking that might occur when the probability of one's occupation is based on similarity or a stereotype.

Furthermore, the *availability* (e.g. of information, instances or scenarios) might as well have an impact on decision-making. For instance, *"one may evaluate the probability that a given business venture will fail by imagining various difficulties it could encounter*"

(Tversky & Kahneman, 1974, p. 1127). The availability heuristic might be useful when assessing a certain frequency of an event or probability because *"instances of large classes are usually recalled better and faster than instances of less frequent classes"* (Tversky & Kahneman, 1974, p. 1127). However, simply relying on (easily) available information and neglecting the unthinkable probability of certain scenarios might lead to severe errors in business settings.

Kahneman (2011, p. 85-86) gives an interesting example of how the availability of information gives the human mind consisting of two systems labeled System 1 (See Appendix 1) and System 2 a starting point to find an easy and compelling answer:

> Consider the following: "Will Mindik be a good leader? She is intelligent and strong…" An answer quickly came to your mind, and it was yes. You picked the best answer based on the very limited information available, but you jumped the gun. What if the next two adjectives were corrupt and cruel? Take a note of what you did not do as you briefly thought of Mindik as a leader. You did not start by asking: "What would I need to know before I formed and opinion about the quality of someone's leadership?" System 1 got to work on its own from the first adjective: intelligent is good, intelligent and strong is very good. This is the best story that can be constructed from two adjectives, and System 1 delivered it with great cognitive ease. The story will be revised if new information comes in (such as Mindik is corrupt), but there is no waiting and no subjective discomfort. And there also remains a bias favoring the first impression.

Daniel Kahneman (2011, p. 85) labels the phenomenon as an abbreviation WYSIATI (i.e. what you see is all there is). The WYSIATI is very present throughout the whole story of *Thinking, Fast and Slow* Daniel Kahneman (2011) narrates.

An anchoring heuristic is almost every time present when people predict the outcomes of events, financial tasks or similar from a starting or reference point that is given (Tversky & Kahneman, 1974). Duo (1974, p. 1128) illustrates*: "The initial value, or starting point, may suggested by the formulation of the problem, or it may be the result of a partial computation. In either case, adjustments are typically insufficient."* Therefore, when individuals are given starting points, the outcomes appear to be heavily affected by the starting point, thus called anchoring (Tversky & Kahneman, 1974).

According to prospect theory, *"losses loom larger than gains"* (Kahneman, 2011, p. 282). Kahneman (2011, p. 349). elaborates the phrase even further by stating: *"Losses are weighted twice as much as gains in several contexts: choice between gambles, the endowment effect, and reactions to price changes."* Prospect theory explains the decision-making phenomena in risky settings (Kahneman & Tversky, 1979). In financial occasions, the following definition by Paul Slovic (Kahneman, 2011, p. 141) of risk might be useful:

> Risk does not exist "out there", independent of our minds and culture, waiting to be measured. Human beings have invented the concept of "risk" to help them understand and cope with the dangers and uncertainties of life. Although these dangers are real, there is no such thing as "real risk" or "objective risk

There are two caveats of prospect theory (See Appendix 2) that are particularly interesting in the entrepreneurship framework. *Loss aversion* and *reference point* make individuals in financial projections consider how much they are willing to lose and gain, but, on the other hand, what is the status quo (Kahneman, 2011). Therefore, there are two notes that Kahneman (2011, p. 285) exhibits:

> 1) In mixed gambles, where both a gain and a loss are possible, loss aversion causes extremely risk-averse choices,
>
> 2) In bad choices, where a sure loss is compared to a larger loss that I merely probable, diminishing sensitivity causes risk seeking

There is a textbook example of the loss aversion (Kahneman, 2011, p. 283) phenomenon (Consider the dilemma):

> You are offered a gamble on the toss of a coin.
>
> If the coin shows tails, you lose $100.
>
> If the coin shows heads, you win $150.

If you were to answer that the gamble seems not particularly attractive and you feel not willing to take part in the 50-50 gamble, you are like most of us. In general, people are

willing to gain twice the amount they are willing to lose, (ranging from 1,5 to 2,5) as the losses generally loom twice as painful as the gains (Kahneman, 2011).

Daniel Kahneman and Amos Tversky, the Nobel Prize winners in 2002 in Economics (nobelprize.org), have extensively studied human decision-making processes. Consistent with their research (e.g. Kahneman, 2011; Kahneman et al., 2019; Tversky & Kahneman, 1973) decision-making is prone to cognitive biases and heuristics, therefore decisions made are not the most optimal on many occasions. In Kahneman's (2011) book *Thinking, Fast and Slow* the author introduces the main concept of two cognitive systems that formulate human decision-making, *System 1* (fast, automatic, intuitive thinking) and *System 2* (slow, deliberate, effortful thinking). As labelled as fast, System 1 operates automatically, intuitively, and effortlessly, relying heavily on heuristics (i.e. rule of thumbs, simple rules**)** or mental shortcuts to make quick judgments and decisions. System 1 is responsible for immediate reactions, gut feelings, and quick decisions, often without conscious deliberation. System 1 can be considered useful in daily tasks, but it is prone to cognitive biases and errors, which can further lead to suboptimal (or even hazardous) decisions. (Kahneman, 2011)

System 2 involves deliberate, conscious, and effortful thinking that requires cognitive effort and analytical reasoning. System 2 is engaged when there is a need to solve complex problems, weigh evidence, or evaluate alternatives. While System 2 is less susceptible to cognitive biases, it can be slow and taxing, causing people to rely on System 1 more frequently than would be optimal. For decision-makers, it is essential to acknowledge the importance of understanding the interplay between System 1 and System 2 in decision-making situations (Kahneman, 2011). For instance, the anchoring effect, availability heuristic, and confirmation bias are of examples how our intuitive judgments can be suboptimal. Furthermore, effective decision-making requires individuals to recognize when their intuitive judgments may be biased and engage System 2 to counteract potential biases. By developing an awareness of these cognitive processes, decision-makers might make more informed and rational decisions, reducing the likelihood of errors and suboptimal outcomes. Still, we humans know rather little, so

the ultimate outcomes of decisions might still be hazardous (Kahneman, 2011).

2.1.2 Startup settings

Entrepreneurship as a phenomenon can be described in Schumpeter's (1947, p. 151-152) words on economic change:

> Accordingly, a study of creative response in business becomes coterminous with a study of entrepreneurship. The mechanisms of economic change in capitalist society pivot on entrepreneurial activity. Whether we emphasize opportunity or conditions, the responses of individuals or of groups, it is patently true that in capitalist society objective opportunities or conditions act through entrepreneurial activity, analysis of which is at the very least a highly important avenue to the investigation of economic changes in the capitalist epoch. This is compatible with widely different views about its importance as an "ultimate cause.

Furthermore, entrepreneurial activity is tightly linked to *"creative destruction"* (Schumpeter, 2010). Schumpeter (2010, p. 73) explains*: "The fundamental impulse that sets and keeps the capitalist engine in motion comes from the new consumers' goods, the new methods of production or transportation, the new markets, the new forms of industrial organization that capitalist enterprise creates."* Therefore, the evolutionary nature of the capitalist system keeps entrepreneurs in a constant rat race when adapting to changing customer preferences. Thus, contrary to socialism, the inherent nature of capitalism keeps the entrepreneurs humble (author's translation): "*Nowadays, it is no longer the labor union capitalists are afraid of. They are afraid of the 20-year-old tech entrepreneurs, whose software could destroy their business idea*" (Wahlroos, 2023, p. 307).

Schumpeter (1947, p. 151) explains the definition of an entrepreneur and entrepreneurship with real-life examples:

> Seen in this light, the entrepreneur and his function are not difficult to conceptualize: the defining characteristic is simply the doing of new things or the doing of things that are already being done in a new (innovation). It is but natural, and in fact it is an advantage, that such a definition does not draw any sharp line between what is and what is not "enterprise". For actual life itself knows no such sharp division, though it shows up the type well enough. It should be observed

> at once that the "new thing" need not be spectacular or of historic importance. It need not be Bessemer steel of the explosion motor. It can be the Deerfoot sausage. To see the phenomenon even in the humblest levels of the business world is quite essential though it may be difficult to find the humble entrepreneurs historically.

Furthermore, if an entrepreneur is creating something new (Schumpeter, 1947), innovative and perhaps disruptive (Christensen & Bower, 1996), the entrepreneur could then be viewed as a rebel, pirate or an underdog (Isaacson, 2011) challenging the status quo and old guard (Osterwalder & Pigneur, 2010), sometimes bending the truth (Jensen et al., 2021). For extreme example, is the Steve Jobs recipe: *"reality distortion field, a confounding mélange of a charismatic rhetorical style, an indomitable will, and an eagerness to bend any fact to fit the purpose at hand."* (Isaacson, 2011). Often the entrepreneur is not alone but surrounded by key stakeholders enabling rapid growth, such as VCs, employees, founding partners and advisory board (Blank & Dorf, 2020; Eisenmann et al., 2017; Jensen et al., 2021). As VC funding is nowadays more accessible and information easier to get, the pressure for making an entrepreneur's dreams come true has increased, causing negative outcomes for the entrepreneur (Eisenmann, 2021).

Investopedia (Investopedia.com) defines an entrepreneur as "an individual who has an idea acts on that idea, usually to disrupt the current market with a new product or service*".* Therefore, not all small businesses (hairdressers, restaurants, single-employed entrepreneurs) are defined as entrepreneurs, because they tend to stick to local presence, focus on what they are experts at and are perhaps unwilling to take financial risks to create something new, better or disruptive (Shane & Venkataraman, 2000).

Pioneers of research on entrepreneurship, Shane and Venkataraman (2000, p. 218) define entrepreneurship as *"the scholarly examination of how, by whom, and with what effects opportunities to create future goods and services are discovered, evaluated, and exploited".* On the other hand, *"entrepreneurship is about cognition, discovery, pursuing market opportunities, and coordinating knowledge that lead to heterogeneous outputs"* (Alvarez & Busenitz, 2001, p. 757). Contrary to the prior individual-centric perspective

(i.e. who is an entrepreneur) on entrepreneurship and thus neglecting the external variables affecting the entrepreneurial activity (Eckhardt & Shane, 2003), Shane and Venkataraman (2000) take into account perhaps the most important external dimension of entrepreneurship, opportunity. Therefore, the focus of the research is on the roots of the opportunities, how the opportunities are discovered and by whom (Shane & Venkataraman, 2000). According to Drucker (1985), opportunities can occur when there are changes in external environment (information, market and industry conditions and demographics) and the internal environment (unpredictable conditions, activities, and inconsistencies). The opportunity exploitation is presented with an attractive analogy: *"When asked why he climbed Mount Everest, world renowned mountain climber George Mallory is alleged to have responded, 'Because it is there.'"* (Alvarez & Barney, 2007, p. 11). Like entrepreneurs, they are keen to climb the mountain, because it is there, or as Alvarez and Barney (2007) "build the mountain", since there are two distinctive theories regarding entrepreneurial action, discovery and creation theory. However, to capitalize on the opportunities, entrepreneurs tend to make decisions regarding whether to assess, exploit, enter or exit the prevailing opportunities (Shepherd et al., 2015).

"What makes entrepreneurs entrepreneurial?" is Saras D. Sarasvathy's (2006) seminal piece on entrepreneurship that sheds light on how species entrepreneurs think and act compared to managers, strategists and other mere mortals. Several characteristics distinguish entrepreneurial thinking in business settings and Sarasvathy (2006, p. 2) has coined the theorem as *"effectual reasoning"*. Effectual is defined as the opposite of causal, and effectual reasoning is a process the entrepreneurs view yet-to-be-made future through *means* they possess instead of what might be a desired goal set by, for instance, the top management of the corporation (Dew et al., 2009; Sarasvathy, 2001, 2006). According to Sarasvathy (2006), the means consist of three elements, who the entrepreneurs are (i.e. traits, capabilities, preferences), who do they know (i.e. network of social and professional contacts) and what they know (i.e. education, experience, know-how). There are also three caveats the effectual reasoning presents for future founders that are shown in Figure 1.

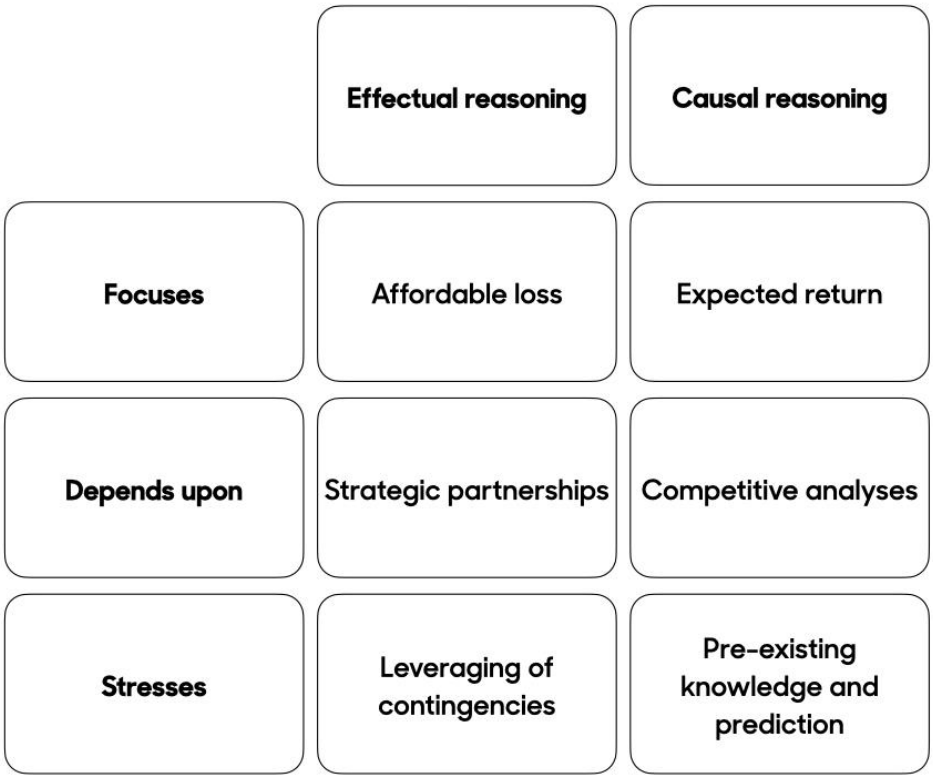

Figure 1. Effectual and causal reasoning (Sarasvathy, 2006, p. 5)

Consistent with Kahneman's (2011) work, effectual reasoning (Sarasvathy, 2006) taps into the fundamental psychological principle under uncertainty, loss aversion. Therefore, entrepreneurs focus on the (maximum) affordable share of resources that they are willing to lose (Sarasvathy, 2006, 2001). Contrary to estimations of possible return, for instance, return on invested capital (ROIC), affordable loss in entrepreneurial settings could therefore as well be all the resources entrepreneurial organizations possess and are not willing to lose (Sarasvathy, 2006). Moreover, as causal reasoning builds on analyses of the competitive landscape, effectual reasoning relies on strategic partnerships to create a competitive advantage in the long range and therefore highlights contingencies instead of *"exploitation of pre-existing knowledge and prediction*" (Sarasvathy, 2006, p. 5).

Shepherd, Williams and Patzelt (2015) characterize the entrepreneurial sphere as where extreme uncertainty, emotional stress, ambiguity, high risk and time pressure prevail. The entrepreneurial landscape can be also described as a volatile, uncertain, complex and ambiguous (VUCA) environment, coined by the US military in the late 1990s (Schoemaker et al., 2018). In a similar vein, Ott and Eisenhardt (2020, p. 2276) describe entrepreneurial settings as *"the context of new firms competing in nascent markets".* Furthermore, nascent markets are a descriptive term for a competitive external environment where *"a few firms try successfully navigate a "high velocity" (i.e. uncertain, ambiguous and fast-paced) landscape"* (Ott & Eisenhardt, 2020, p. 2277). Therefore, the defining source of the opportunities lies in the asymmetry of the value of resources individuals perceive when these resources are transferred from inputs to outputs (Schumpeter, 1947; Shane & Venkataraman, 2000), thus creating opportunities for, for instance, startup founders. Also, further developing technology enhances the opportunity capitalization, when innovations of various forms lower information and communication technology (ICT) and computing costs (Magretta, 2002), thus creating easier access to information and funding for more propeller heads.

Consistent with previous research, Sarasvathy (2006) presents a fourfold matrix (i.e. existing market and existing product; existing market and new product; new market and existing product; and new market and new product). It might be intuitively easy to pinpoint that entrepreneurship falls into the category of a new market and a new product, labeled as the "suicide quadrant" (Sarasvathy, 2006, p. 7). However, the choice of the suicide quadrant might be prudent: *"In fact, several of the expert entrepreneurs I studied explicitly stated that being in a market that could be predicted was not such a good idea, since there would always be someone smarter and with deeper pockets who would predict it better than they could"* (Sarasvathy, 2006, p. 7).

There are various definitions for a startup. Eric Ries (2011, p. 8), a founder of IMVU defines it as: *"A startup is a human institution designed to create a new product or service under conditions of extreme uncertainty"*. Ries's teacher in Berkeley, professor Steve Blank and Dorf (2020, p. xvii) determine a startup as: *"A startup is a temporary*

organization in search of a scalable, repeatable and profitable business model" On the contrary, Paul Graham (PaulGraham.com) brings up another way of seeing startups: *"A startup is a company designed to grow fast. Being newly founded does not in itself make a company a startup. Nor is it necessary for a startup to work on technology or take venture funding, or have some sort of 'exit'. The only essential thing is growth. Everything else we associate with startups follows from growth."*

Growth is an interesting characteristic distinguishing startup from other firms. As Creandum's general partner Johan Brenner explained their investing strategy during a "Negotiations for Startups" lecture at Stockholm School of Entrepreneurship (SSES) in spring 2021, startups are expected to tenfold their revenue during their first years. By doing so, they are returning the invested VC capital and therefore covering losses in the VC portfolio. Creandum's philosophy is to spot future winners in the nascent markets so that the winner takes the largest share of the industry, sometimes all of it (winner-takes it-all-mentality applies at least in the platform and ecosystem world where network effects explain the enormous value creation and customer retention). One of their success stories is Spotify and its founding team including Daniel Ek and colleagues which was backed by Creandum from the early stages. Similar stories can be found in well-known VC firms, such as Lifeline Ventures, Kleiner Perkins, Sequoia, Accel and Khosla Ventures. In the following the business model is discussed as a source for rapid growth.

2.2 Business model

President Truman famously asked for a "one-armed economist" who would take a clear stand; he was sick and tired of economists who kept saying, "On the other hand…"
(Kahneman, 2011, p. 262)

Snihur and Eisenhardt (2022, p. 758) claim that *"[In other words,] we believe that the business model is rapidly replacing strategy as the most significant source of competitive advantage. Indeed, given that strategy is about winning, then the business model may well be the "new" strategy."* Their argument is based on the recent developments of computing capacity, algorithms and artificial intelligence replacing many routine tasks

giving more emphasis on the business model logic. Furthermore, Ott and Eisenhardt (2020) argue that effective strategy formation distinguishes successful ventures from failures in nascent markets. In a similar vein, Chesbrough and Rosenbloom's (2002) study of six Xerox Palo Alto Research Center's (PARC: A place Steve Jobs visited with great success (Isaacson, 2011) spin-offs (3Com, Adobe, SynOptics, Metaphor, LiveWorks and Documentum) illustrates that effective business model formation and learning enhance the likelihood of venture success. Therefore, tapping into the business model as a concept driving success in startups is essential and presented in this chapter.

Despite the plethora of research papers on business models, it is quite bizarre that *"[…] Scholars do not agree on what a business model is"* (Zott et al., 2011, p. 1020). However, there might be an explanation for the dilemma: "*It is thus quite arguable that BM and BMI research has been successful in terms of the sheer number of research contributions exactly because there has been something of an "anything goes" approach to the field"* (Foss & Saebi, 2018, p. 11). As such, the nonexistent widely-accepted theory, such as dynamic capabilities (Teece, 2018) or other strategic management streams (Rabetino et al., 2020), has its consequences*: "At times, it seems the term's main purpose is to help consultants sell their services, and for scholars to write case studies attributing the failure of e-business companies to "improper business models."* "(DaSilva & Trkman, 2014, p. 379). Therefore, it is no surprise that definitions of the business model vary greatly (pick your horse) according to Baden-Fuller and Morgan (2010) and Massa, Tucci and Afuah (2017). Probably the easiest interpretations to grasp are Teece's (2010, p. 172)*"How a firm delivers value to customers and converts payment into profits"* and Zott's and Amit's (2010, p. 216), *"… a system of interdependent activities that transcends the focal firm and spans its boundaries"*. Despite the intuitively simple definitions of a complex set of activities, legal contracts and a wide variety of actors involved in the orchestration of a business model (Doz & Kosonen, 2010), maybe the main idea of a business model is to communicate the key pillars to the main audience of the focal firm. Since there might be a desire for a "one-armed economist" (Kahneman, 2011) in the form of a business model, perhaps the most comprehensive visualization of the business model is by Osterwalder and Pigneur (2010) in *Business Model Generation: A Handbook for*

Visionaries, Game Changers, and Challengers where they exhibit the Business Model Canvas (BMC). Those elements of the BMC are seen in Figure 2.

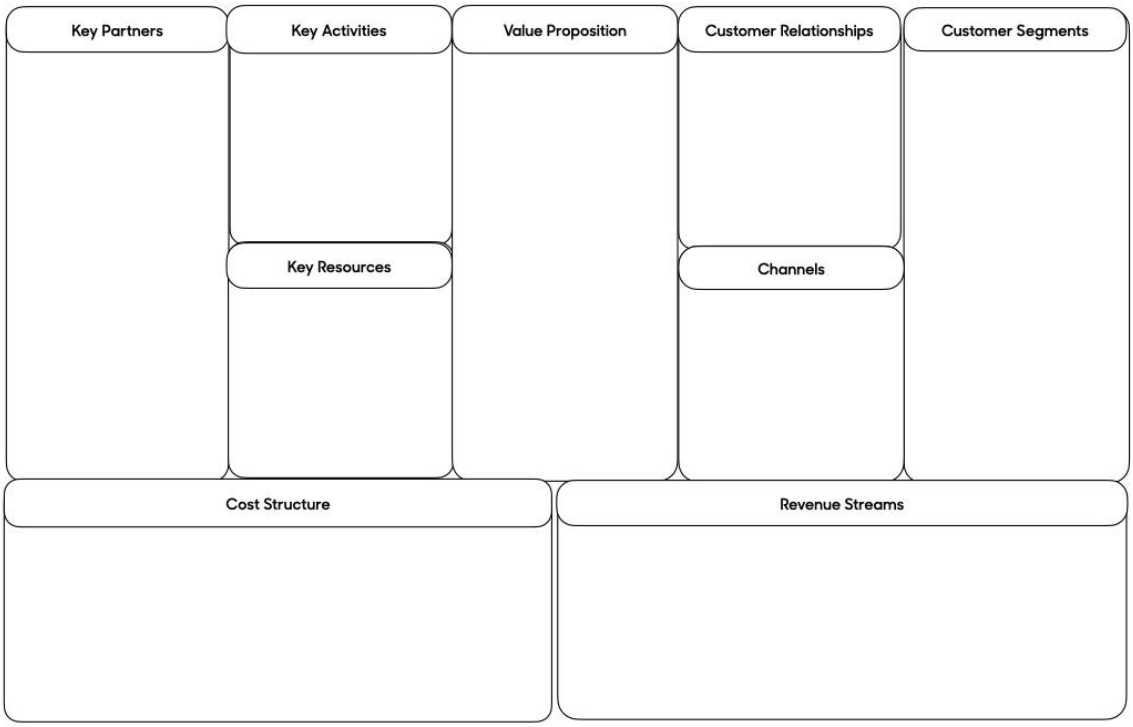

Figure 2. Business Model Canvas (Osterwalder & Pigneur, 2010)

The BMC consists of nine building blocks (Osterwalder & Pigneur, 2010): value proposition (i.e. how will you make your customers' lives happier), customer relationships (i.e. how often will you interact with your customers), customer segments (i.e. who is your target audience in detail), key activities (i.e. what are they key steps to move ahead to your customers), key partners (i.e. what are your key partners to gain competitive advantage), key resources (i.e. what resources do you need to make your idea work), channels (i.e. how are you going to reach your customers), cost structure (i.e. how much are you planning to spend on the product development and marketing for a certain period) and revenue streams (i.e. how much are you planning to earn in a certain period).

In a similar vein, based on empirical evidence from six distinct Xerox PARC spin-offs, Chesbrough and Rosenbloom (2002, p. 533) explain business model functions: articulate the value proposition, (i.e. the value created for users by the offering based on the technology), identify a market segment (i.e. the users to whom the technology is useful and for what purpose, and specify the revenue generation mechanism(s) for the firm), define the structure of the value chain within the firm required to create and distribute the offering, and determine the complementary assets needed to support the firm's position in this chain, estimate the cost structure and profit potential of producing the offering, given the value proposition and value chain structure chosen, describe the position of the firm within the value network linking suppliers and customer, including identification of potential complementors and competitors and formulate the competitive strategy by which the innovating firm will gain and hold advantage over rivals. As seen, there are similarities in Chesbrough and Rosenbloom's (2002) and Osterwalder and Pigneur's (2010) interpretations of a business model, yet word strategy is mentioned in the first-named duo's work.

Often strategy and business model have been used paralleled and as a synonym for one another (Casadesus-Masanell & Ricart, 2010; DaSilva & Trkman, 2014; Massa et al., 2017). However, there are differences between strategy and business model. Business models are a more short-term realization of the business whereas strategy could be considered as a long-term desired end-state that dynamic capabilities alter (DaSilva & Trkman, 2014). Furthermore, the business model is therefore *"[…] a reflection of the firm's realized strategy"* (Casadesus-Masanell & Ricart, 2010, p. 195), whereas strategy is according to the authors often described as a *"contingent plan of action designed to achieve a particular goal"* (Casadesus-Masanell & Ricart, 2010, p. 203). As Magretta (2002) points out, every firm has a business model, but as Björn "Nalle" Wahlroos also stated regarding the Scandinavian insurance company Sampo, not necessarily a strategy. Nalle's claim has probably to do with the holding company nature of Sampo, since it partly owned then numerous publicly listed companies such as If, Mandatum and Nordea. Therefore, Sampo had no strategy, but it owned companies with strategies.

Amit and Zott (2001) study value creation in e-business and interestingly exhibit value creation through novelty, lock-in, complementarities, and efficiency (for cognitive ease, acronym NICE). However, to distinguish in the fierce competition of high-tech ventures, being NICE is not enough (Leppänen et al., 2023). Leppänen, George and Alexy (2023) argue that the business model embedded value drivers are not sufficient, but complementary value driving elements (*strategy*: low cost or differentiation; *contingencies*: competition and large size) embedded with fruitful external environment conditions distinguish high performing from low performing ventures.

Furthermore, the origins of (the business model principle) value creation are in the resource-based view (RBV) and transaction cost economics (TCE) theories, by Barney (1991) and Williamson (1999) respectively. Similarly, the entrepreneurship theory (Alvarez & Barney, 2007; Alvarez & Busenitz, 2001) utilizes the notion of RBV stating that the indigenous resources dictate the value creation and opportunity exploitation and creation.

In a more prescriptive fashion, Blank and Dorf (2020) present the decisions in The Startup Owner's Manual into four stages: customer discovery, customer validation, customer creation and company building. Customer discovery and customer validation are parts of the search cycle which is the first phase of the customer development process. The second phase includes the execution phase which consists of customer creation and company building steps. The rationale behind the four-stage model is to provide startup founders with a model where they can map their hypotheses and effectively test the hypothesis, because Blank and Dorf (2020, p. 21) claim that *"most startups lack a structured process for testing their business model hypothesis"*.

2.3 Synthesis and theoretical framework

Entrepreneurial decision-making and business model intersection is an interesting point of locus of strategy, entrepreneurship and psychology. The wide variety of decisions

entrepreneurs are making in seeking the greatest possible impact of their venture on various stakeholders is a rather formidable challenge (Shepherd et al., 2015), yet greatly rewarding when succeed. Despite the everlasting seek for the latest fads and trends in the entrepreneurship-themed media (e.g. disruptive innovations, rapid growth (Ellis & Brown, 2017), VCs activity (Kirsch et al., 2009), unicorns (Kotha et al., 2019), artificial intelligence (AI) and other buzzwords), they are often lacking a coherent way of illustrating these significant ideas commercially. In general, the discussion is often limited to a rather narrow perspective of the business neglecting the overall business model and logic.

Similar to DaSilva and Trkman's (2014) critique of business model research, business model formation in a startup context has been scrutinized by academics (Felin et al., 2020). According to Osterwalder and Pigneur (2010) and Ries (2011), a startup is a human organization in seek of a viable business model. Therefore, without viable, scalable and feasible business model startups are in seek of false promises to their stakeholders. By testing their plethora of hypotheses through the experiments (Ellis & Brown, 2017), iteration and learning (Ries, 2011; Blank & Dorf, 2020) startups are enhancing the probabilities of answering to right problems.

In conclusion, the formation of a business model sits at the nexus of startup decision-making because it is intrinsically tied to every other function of the startup. Whether it is marketing and sales, product development or finance, every decision could be traced its roots back to the business model or strategy (Ott & Eisenhardt, 2020). The business model is not just a plan, stable artifact or concept as discussed earlier. It is a flexible, ready-to-evolve entity that tells the story of a startup (Magretta, 2002). As the startup grows, decision-making processes might become more rigid and structured, but the fundamentals of the business model remain constant. Therefore, decision-making in startup settings is a multifaceted process, and the formation of a repeatable, scalable and profitable (Blank & Dorf, 2020) business model sits at its core.

As Blank and Dorf (2020, p. 35) note *"No business plan survives first contact with customers so use a business model canvas"*. By understanding the complexities of their chosen business model and being open to iteration and learning, startups can navigate the challenging nascent terrain of their journey and set themselves up for success. As such, the Business Model Canvas in Table 1 above serves as a theoretical framework mapping the heuristics used in the in this Master's thesis.

Table 1. Framework of the study.

Key Partners	Key Activities	**Value Proposition**	Customer Relationships	**Customer Segments**
	Key Resources	Heuristics used in value proposition block	Channels	Heuristics used in customer segments block
Cost Structure (CS)	CS	CS/RS	RS	Revenue Streams (RS)

As seen in Table 1, the simplified BMC serves as a theoretical framework of the study highlighting the two most important building blocks of the business model, value proposition and customer segments. The heuristics used in the building blocks are presented through discussions on Slack where the founding team chats on the development of the startup in various specific channels devoted to strategic domains (sales and marketing, strategy and choices, customers, etc). As Kahneman (2010) puts the heuristics in a nutshell as a set of rules or rules of thumb, the selected heuristics used in the case company settings are similarly simple rules guiding the ship in the blue ocean towards desired destination. In the following chapter the methodology of the study is presented.

3 Methodology

In this chapter, the research methodology of this thesis is exhibited. The research strategy and method are discussed, the case selection process is illustrated shortly, and data collection and data analysis are presented. Lastly, the validity and credibility are discussed.

3.1 Research strategy and method

This research strategy and method could be seen through a methodology specialized for business studies by Saunders and others (2019). Figure 4 shows the research onion as a whole and in the following the selected research dimensions are discussed.

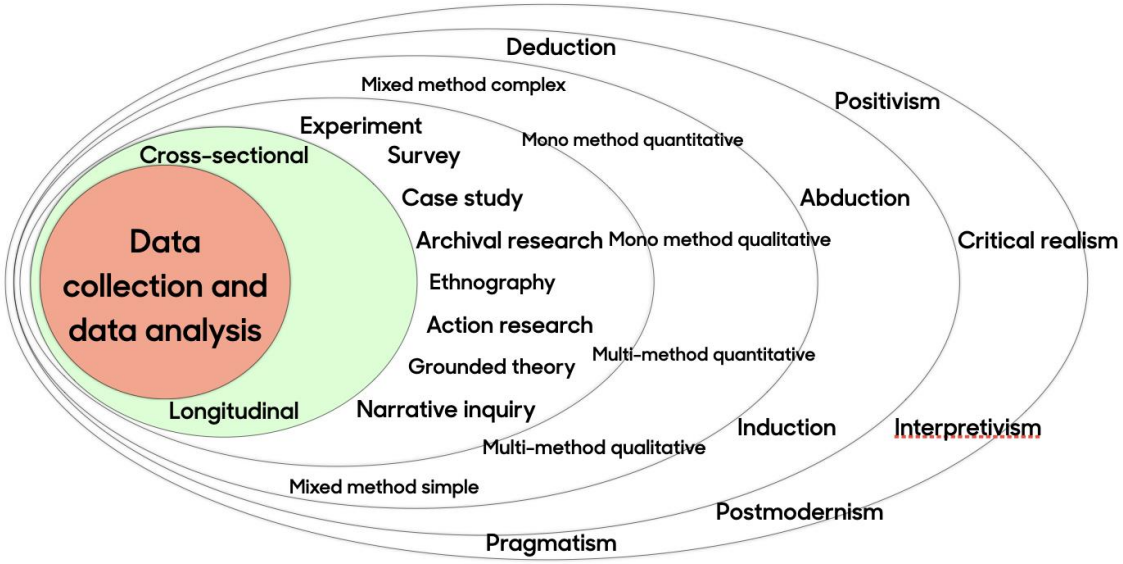

Figure 3. The research onion (modified from Saunders et al., 2019)

The research onion is an academic framework helping academic researchers to conduct studies. The research onion model begins with its outermost layer, which emphasizes the philosophical stance of the researcher. The next layer delves into how the researcher

plans to develop theories. After deciding on a theoretical approach, the focus shifts to the third layer, which involves choosing a methodological framework. The fourth layer involves determining the research strategy. As one moves closer to the center of the onion, the timeframe of the study is established. At the heart of the model, the researcher selects specific techniques and procedures for collecting and analyzing data. Figure 4 shows the research onion as a whole and in the following the selected research dimensions are discussed.

This study is a longitudinal single case study carried out as action research where the author is collecting and analyzing data from activities in the case company during the 17 months starting in April 2022 and ending in September 2023. In action research, the author is acting in two roles: 1) co-founder of the case company focusing on business development activities (i.e. customer development, strategy, product development and negotiations with various stakeholders) and 2) a researcher. The research strategy is to analyze the data stored in the company's digital communication application Slack and verify the conversations and actions from the company's digital working platform Google Workspace. The research method is action research, which is part of the qualitative research repertoire (Beverland & Lindgreen, 2010; Yin, 1994). The research paradigm is interpretative research because the analyzed data is in textual form (i.e. words in chats on Slack). Collected data from Slack is analyzed with content analysis. In content analysis themes are identified to pinpoint decisions made and how the decisions alter the case company's business model (i.e. value proposition, channels, customer segments and key partners).

3.2 Case selection

The case selection process can be described as an entrepreneurial opportunity: a fellow co-founder of the case company asked the author if I could write my Master's thesis based on the work we had been doing since the spring 2022. The rationale behind the proposal was to make a deep dive into theoretical frameworks on startups and

entrepreneurship and provide academic theories for the business model formation of the case company. The idea seemed compelling and worth exploring. Thus, the writing process started rather iteratively in January 2023.

3.3 Data collection

The data is collected from Slack by exporting all conversations into Pages format. All collected data is protected and stored in iCloud. Due to the nature of conversation in Slack (i.e. specific threads for specific functions: marketing & sales, strategy, product development, founders etc.) data is scattered in specific topic channels, and hence the collection is needed to execute in a chronological order. Thus, the data analysis is affected by the timeline provided by the data collection.

3.4 Data analysis

> Data analysis consists of examining, categorizing, tabulating, or otherwise recombining the evidence, to address the initial propositions of a study. Analyzing case study evidence is especially difficult because the strategies and techniques have not been well defined in the past. Nevertheless, every investigation should start with a general analytic strategy — yielding priorities for what to analyze and why. (Yin, 1994, p. 104)

Data is analyzed through content analysis and the data analysis process is as follows: first, all the decisions are identified, collected, dated and documented. Second, all the decisions are analyzed and monitored in the business model canvas framework. Third, the outcome of the decisions is mirrored by business model canvas and heuristics. The main events behind the decisions are often pivotal moments when business model components are tested by customers, investors, industry experts or fellow entrepreneurs' comments. Through an intense deep dive into founders' conversations the three major pivots were identified and focus turned into constructing a pattern upon them (Yin, 1994). Furthermore, since the time period of 17 months is rather long, time series

(Beverland & Lindgreen, 2010) and patterns linked to three major decisions are monitored closely to keep focus solely on major decisions.

In summary, this research utilizes the "research onion" methodology from Saunders and others (2019) to structure the approach, starting with philosophical considerations and moving inward through theory development, methodological frameworks, and data collection techniques. This research is carried out as a longitudinal single case study conducted as action research over 17 months, from April 2022 to September 2023. The author of the research acts as both co-founder and researcher, analyzing business development activities within a company. Data from Slack is collected and analyzed through content analysis, identifying key decisions and their impact on the company's business model (more precisely, customer segments and value proposition). Themes and patterns, particularly around three pivotal business decisions (rebranding, value proposition and customer segments) are examined. Data collection is organized chronologically and stored in iCloud. The research employs a qualitative, interpretative approach, focusing on the evolution of the business model over time of 17 months.

4 Findings

This chapter taps into the 17-month period of case company's decisions. The journey is described through three key decisions: 1) rebranding, 2) customer segments and 3) value proposition. Lastly, the story is synthesized into revised framework.

4.1 Case company description

The case company Rafla Enterprises (rafla.io) was founded in 2020 (original business model shown in Appendix 3) by an IT student. Initially, the software was engineered from scratch for a premium pizza (i.e. the price point ranging from €12 to €18 a pizza) franchise. In 2020, the software was called and trademarked as *Epirest*. The restaurant functionalities (modules) for the pizza franchise included a website, point-of-sale (POS) system, kitchen display system (KDS) and takeaway orders through the website. Also, many other minor tweaks were introduced during the development cycle. The POS is a must-have in every business that is taking customers' money directly by payment cards, cash or employee benefit cards (e.g. Edenred and Smartum) in Finland. In other words, POS is a modern cash register that nowadays is connected to the Internet, and in Epirest's case, to the restaurant's website where the orders are placed. KDS is a kanban board where orders are shown in first-in-first-out (FIFO) in the kitchen. The kanban shows the information what is ordered, in what table and when the order must be ready to be served. In many cases, takeaway orders are highlighted on the board.

During the 2020-2022 before the author joined the founding team *key decisions* were recruiting several sales representatives, a table booking system was engineered, various sales tactics used and many lessons learned. However, much progress in the business model perspective was not achieved despite the progress in software development. Due to a nonexistent systematic way of testing hypotheses, funding, unclear vision and most importantly Epirest being a *side hustle* for the founders, no rapid progress was achieved. Since the founding there have been intentions to have a larger founding team and two

people (finance/accounting and product development capabilities) joined the team in the fall of 2020. However, the finance and accounting person left soon the team and product development person and the software engineer stayed.

The author started familiarizing with Epirest through the Service Business Development course in March-April 2022. During the course, the team analyzed the digital maturity (i.e. what digital applications restaurants use daily) in five restaurants in Vaasa, Tampere and Helsinki. After the course, talks about joining the founding team (Figure 4) began and the author joined Epirest in mid-April. During the first months, the team grew with an additional member possessing sales capabilities. Epirest needed funding to accelerate the product and customer development in the summer of 2022, and the founding team started to seek external capital. One opportunity appeared when an angel investor pair was leaving the construction IT software firm where three out of four of the Epirest founders were working. Epirest team pitched the business case to the investors on 17th May 2022. Investors presented a list of relevant questions (Appendix 4). Epirest team provided answers to the questions. After negotiations, the investors decided not to invest capital in Epirest. Thus, the Epirest team decided to bootstrap (i.e. grow the business with net cash flow without external capital employed) until the moment the business model would be significantly advanced in a product-market fit perspective and more customers acquired.

The competitive landscape is fierce in the restaurant software context in Finland. Competitors in the Finnish Point-of-Sale (POS) market, such as Restolution, WinPOS, OpenPOS, TuloPOS, Jeemly, Vektorikassa, Solmio and Mando are in post-pandemic mode investing in product development and cloud transition. In addition to Scandinavian-based POS competitors, there are global competitors such as Zettle, Square, and Clover. The COVID-19 lockdowns caused many restaurant personnel to leave the industry and apply for other jobs, which has been one of the many bottlenecks in the restaurant industry in 2023. Furthermore, a vast amount of customer data is owned by food delivery technology companies, such as Wolt and Foodora in Finland. To indirectly compete with

DoorDash (Wolt's San Fransisco-based parent company listed on the New York Stock Exchange) and Delivery Hero (Foodora's Berlin-based parent company listed on the Frankfurt Stock Exchange), one should innovate something disruptive and radical to help the restaurants to be something else than "manufacturing plants" for food delivery platforms who are capturing a major share of profits in the value chain due to customer data and network effects, therefore achieving high customer retention rate.

In a perfect world Rafla offers a cloud-based Software-as-a-Service (SaaS) restaurant management system for premium pizza and fast casual restaurants in Finland. Rafla serves three customers, and a fourth customer will enroll in Rafla in November 2023. Two co-founders are working on the vision to bring more clarity to the restaurant market in Finland. In the shadow of Finnish food technology pioneers such as Wolt and Huuva, it is possible to make an international breakthrough. Rafla intends to provide SaaS into the business-to-business landscape utilizing state-of-the-art AI tools, minimizing unnecessary tasks in daily restaurant operations providing accurate data from the operations in one application, thus reducing many redundant and outdated applications from table bookings, and couriers to procurement.

Based on agreed-upon tasks, weekly online meetings were organized and goals were discussed for the week and allocated among the founders. In a similar vein, weeklies were held with customers to keep Rafla and the customers in a close loop of the software development. Also, every potential issue or problem was more easily spotted when discussed weekly.

4.2 Co-founding team

The co-founders of Rafla are explained as short vignettes:

1) Co-Founder 1 is the epicentre of the team: he is the father of the software nurturing the young code family towards bigger goals. Despite he is working for a software company operating in the construction secto, a majority of his time strongly focused

to Rafla. Upon the founding team he is named as a “Wizard” since the tricks needed daily are nearly magical.

2) Co-Founder 2 is responsible for the commercial side of Rafla. He holds BBA and has a working background in construction industry. He is the only member of the founding team solely working for the startup and getting out of the building selling the product to potential customers.
3) Co-Founder 3 is responsible for product development and partners. He holds BBA in Civil Engineering and has working experience in construction industry.
4) Co-Founder 4 is responsible of sales and has experience in various sales roles in different industries, lastly from construction industry.

Since the whole team expect the Co-Founder 2 is working partly towards Rafla targets the startup progress is rather slow but steady. In addition, cash flow is totally devoted to activities needed to speed up the product market fit and making sure all customers are well served.

4.3 Decision on rebranding

Appendix 3 sheds some light on the original business model. There were major concerns regarding the original business model. Perhaps the most irritating was that the company name Epirest did not resonate with customers and did not deliver the intended image of the offering. Also, talks with various potential customers in the premium pizza segment addressed the non-relevance of the name since Epirest reminded them of medicine or similar convenience products. As two potential customers put it into words:

1) He (the customer) said that pharmaceutical companies come to mind about the name, and the logo does not help to clarify the matter towards restaurants.
2) A bit boring, but I have to bring up (his) first reaction when asked what the name of the product was: "Some medicine comes to mind". (Co-Founder 2)

Since the brand name was coined by the founder it took some time to convince him about the necessity of rebranding. The Co-Founder 2 initiates that it might be wise to ask for external marketing agency to execute the rebranding of Epirest. Therefore, the team asked help from three agencies. However, since the cash flow was rather modest

at the time, the team hired a user interface (UI) and user experience (UX) designer with branding, strategy and prototyping capabilities on 31st of May 2022.

The UI/UX designer was hired, the following was agreed upon with the founders and the designer:

> Over yesterday's lunch, the discussions brought up three separate streams that we could work with together:
>
> 1) The current service and its continuous improvement
> 2) The future service where the user interface, brand, name, visual components, value propositions and other elements give us a competitive advantage in our chosen market, and
> 3) Sharpening the business model, which is refined based on the overview of the competitive field, customer meetings and discussions with various stakeholders
>
> In addition, we create a plan for the end of the year together. We will arrange a meeting next week or at the latest at the beginning of the first week of July (2022). (Co-Founder 2)

Despite the compensation negotiations between the co-founders and sales reps there was no mutual agreement on the compensation and the sales pipeline was empty at the beginning of 2022, despite the promising start and a compelling offer to earn solid compensation.

Rather soon the co-founders realized the potential customers needed a full package of tools, both software and hardware, to run daily operations in their restaurants. To match the need, initially key partners included a partner for websites. However, since the path to the seed round needed a clear differentiation (value proposition) from competitors in the Finnish restaurant market, the external marketing company was irrelevant. Hence, the Rafla team decided to pursue a turnkey solution provider business model pattern:

> [We could still analyze the competitive landscape regarding ERP solution providers because] our vision is to bring holistic restaurant resource planning to our customers with our service (Rafla). (Co-Founder 3)

Key activities inherently include software development, sales/marketing and innovation when the startup ought to disrupt the restaurant management software market in Finland. This building block in the Business Model Canvas (Osterwalder & Pigneur, 2010) might be the only one that seems untouchable during the action research project.

Key resources are bundled with key activities. Therefore, software development, patents and trademarks are among the most valuable assets a startup possesses in its first initial steps. Also, the team and the network the founders are able to facilitate during the early days play a crucial role when facing challenges. Still, during 2020 and 2021 while key partners included seven (7) sales reps, the management of salespeople took a large amount of the founding team's resources. In a similar vein, founders were trying to hire additional software developers to boost software development. However, the search did not materialize despite a few try-outs.

Channels in early-stage startup settings inherently rely largely on the founding team's activity. Originally, founding team members attracted attention to the startup via their personal network. Most contacts working or interacting with Epirest were friends or other close relationships. In addition to personal contacts, Epirest utilized Fonecta advertisement to be shown in Google searches. Despite the convenience, Fonecta appeared to be a relatively expensive tool for a startup since the potential customers might not be convinced by flashy words in Google search. Therefore, the team terminated the partnership with it and focused marketing resources first on brand development and then on product development.

Cost structure in startup settings is often a secret sauce to high economic rents. However, as one could imagine, a SaaS operator with no staff and almost no hardware is resulting in marginal fixed costs. Also, when founders are not working full-time and they are not compensated with money, the startup is utilizing *"sweat equity"*. Thus, salaries are paid once the net cash flow is sufficient. Other costs include marketing which is done in an

agile manner focusing on product creation from the summer of 2022 when UI/UX capabilities were acquired.

Revenue streams are threefold: monthly fee based on net sales, website services and additional services in the original business model idea. However, to be structured, efficient and scalable, one needs to align the revenue streams value proposition in mind. Therefore, the alignment of revenue was a topic of intensive discussion among the founders of Rafla. Pricing is a key element of profit, value and differentiation in any market, thus it is beneficial to take it rather strategically.

4.4 Decision on customer segments

When the action research started in April 2022 it seemed to the author that the needs, pains and desires of potential customers were somehow unclear to the founding team. However, the software was engineered to fulfill the needs of the premium pizza chain it tackled the fundamentals of one customer segment, premium pizzerias. As seen in *Appendix 3*, customer segments include various potential segments with distinctive ways of conducting business in the restaurant industry. However, between 2020 and 2022 the prior members of the founding team had tried selling to all the listed customer segments without deals in other segments than pizzerias. Consistent with the strategic management literature, an effective strategy tends to be different than its competitors, sometimes described as the Blue Ocean. As such, one could argue why Rafla targets to serve various customer segments in the restaurant industry with heterogeneous business needs. During the process of action research, the customer focus was sharpened towards one specific target group:

> [I see the potential because I know the guy (potential customer) well enough that] he is an entrepreneurial multi-talent who wants to try something new and do something different. […] Just such a young, fresh and entrepreneur-minded restaurant with a novel perspective is a so-called perfect customer. (Co-Founder 2)

Consistent with prior entrepreneurship research, similar decision-making *means* could

be identified in the case company's context. Means are strongly tied into the founders' network where the resources are mostly deployed. As the empirical material for this thesis is documented on Slack, there are available the decisions made. The environment where the decisions are made might have been on the phone, Google Meet or face-to-face meetings.

Customer relationships were organized in the original Epirest business model by sales representatives who were in direct contact with restaurants and potential restaurants. However, the viability of the original business model did not prove to be the most successful since there were concerns regarding compensation structure and how the sales representatives representing a startup might stay highly motivated while selling the product:

> Together we have agreed upon a model for future sales: sales representatives work for us as private traders and get paid 20 percent provisions passively as long as the customer is resulting in monthly recurring revenue (MRR) for us. For instance, 20 deals costing €450 each totals €9000 which equals a monthly passive provision of €1800. On special occasions, the provision is negotiated case-by-case. (Co-Founder 3)

However, despite the compelling offer for sales reps, the model did not work due various reasons. A sales rep ideates the following:

> Now that I have been thinking about the provision sales reps receive I have an idea. What if sales reps receive an 80% provision during the first four months and an additional 50% of the founding commission? Then we (sales reps) would get paid our salaries faster. I calculated that a sales rep earns around €1000 a year per customer, based on the 20% provision model.

Despite the compensation negotiations between the co-founders and sales reps there was no mutual agreement on the compensation and the sales pipeline was empty at the beginning of 2022, despite the promising start and a compelling offer to earn solid compensation.

The result of the rebranding is Rafla with a value proposition targeting premium pizza restaurants and other fast-casual restaurants with distinct and profitable concepts, yet without major ownership held by restaurant chains or listed organizations, such as Nordic Hospitality (NoHo) Partners. The rationale was based on a notion of the competitive field:

> [..."] We could categorize what each one (competitor) focuses on. However, there were, for example, POS operators who offered a solution for the beauty industry. Therefore, the field is relatively fragmented.

Furthermore, as Rafla's major competitors are stretching their customer segments from kiosks to hairdressers it might not be wise to follow that journey. As described in the previous chapter the Epirest business model is modulated during the 17-month action research project. The most concrete artifact of the business model formation is the brand-new brand, Rafla with a unique value proposition targeting solely fast casual restaurants in the restaurant industry in Finland. Therefore, the business model in its nine distinctive building blocks is looking rather different (Appendix 5).

4.5 Decision on value proposition

Rather soon Rafla co-founders realized the potential customers needed a full package of tools, both software and hardware, to run daily operations in their restaurants. To match the need, initially key partners included a partner for websites. However, since the path to the seed round needed a clear differentiation (value proposition) from competitors in the Finnish restaurant market, the external marketing company was irrelevant. Hence, the Rafla team decided to pursue a turnkey solution provider business model pattern:

> [We could still analyze the competitive landscape regarding ERP solution providers because] our vision is to bring holistic restaurant resource planning to our customers with our service (Rafla).

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Furthermore, as Rafla's major competitors are stretching their customer segments from kiosks to hairdressers it might not be wise to follow that path.

4.6 Synthesis and the revised framework

As seen previously, Rafla's *Need for Seed* journey is nothing but linear. However, progress toward the "right" direction could be identified. These characteristics are perhaps due to founders-related challenges: they are located in different cities, most of the founders are first-time entrepreneurs and none of the founders have experience in the restaurant industry and they have full-time jobs elsewhere than at Rafla. The founding team could have been lucky if the decisions solely touched the operational decisions. Hence, all available resources were not focused on rapid growth enabling activities (e.g. talks with potential customers, negotiations with various stakeholders and product development based on customers' feedback). Other than operational decisions boosting rapid growth in startup settings were for instance startup ownership structure, founding partners roles, accountability and capabilities, founding partners motivation and self-management, executing agreed tasks among others. As described in the previous chapter the business model of the case company has been modulating during the 17-month action research project. The most concrete artifact of the business model formation is the new brand, Rafla with a unique value proposition targeting solely premium pizza restaurants in the restaurant industry in Finland. Therefore, the business model in its nine distinctive building blocks is looking rather different (Appendix 5).

Table 2. The revised framework.

Key Partners	Key Activities	**Value Proposition**	Customer Relationships	**Customer Segments**
	Key Resources	"Old name associates us as some pharmacy company" → "We align our value proposition according to our customers" → "We offer a holistic set of digital tools to run a premium pizzeria efficiently"	Channels	"One customer segment at a time" → "We know premium pizzerias the best" → "We stick to learn as much as possible of their business" → "We scale to other customer segments when we see the opportunity"
Cost Structure (CS)	CS	CS/RS	RS	Revenue Streams (RS)

To summarize the revised framework the starting point in general is on customer segments as the startup literature also suggests (Osterwalder & Pigneur 2010; Blank & Dorf, 2020; Ellis & Brown, 2017). By doing so, the value proposition might sit much better on the customers' needs. In a similar vein, the focus was during the study period to enhance the knowledge of the customers' business to be able to grow in the selected customer group and aligning the other building blocks according to that. In a nutshell, the heuristics (i.e. simple rules, rules of thumb) shown in the Table 2 guided the decision-making towards continuous learning and testing of the hypotheses to make profit in the long term.

5 Discussion

When asked OpenAI's ChatGPT "How to build a successful startup (answer with the accent of a pirate)" it answered with the following:

> *Arrr matey! If ye be wantin' to start a successful startup, ye'll need to follow these steps:*
>
> 1. *Find a problem or need in the market and come up with a unique solution to solve it.*
> 2. *Put together a solid plan that details your product or service, target market, and financial projections.*
> 3. *Get yer hands on some gold doubloons, or other treasure, to fund yer venture.*
> 4. *Assemble a motley crew of talented and dedicated pirates to help bring yer vision to life.*
> 5. *Use savvy marketing and sales tactics to attract and keep customers.*
> 6. *Stay agile and ready to adapt and innovate to stay ahead of the competition and meet the changing needs of yer customers.*
>
> *Remember, starting a successful startup be a treacherous journey, so ye'll need to be persistent and resilient. But with hard work, determination, and the right approach, ye can turn yer startup into a successful business and sail off into the sunset with a chest full of treasure. Arrr!*

In the following chapter theoretical implications, implications for startup founders as well as limitations and suggestions for future researchers are discussed.

5.1 Theoretical implications

This study confirms with the view of Eisenhardt and Ott (2020) that it is relatively hard to tackle all the development targets at once. Furhermore, as the authors point out the focus could rather easily shift to various development ideas, thus leading to decisions bearing no fruit in terms of an intended outcome (e.g. finding the perfect customer, product-market fit and thus finding the competitive advantage in the nascent markets). This study also aligns with previous startup literature as the intentions was to focus on one stepping stone at a time relying on "fail fast" principle (Ries, 2011; Maurya, 2012; Ellis & Brown, 2017; (Knapp et al., 2016). As seen in the rebranding chapter, the association of the old brand Epirest was lagging progress behind, thus affecting the

business model's other parts to be left behind in discovery for novel ways. On many occasions startup founders are prone to pivot from their original ideas rather late causing hazardous decisions to occur (Eisenmann, 2021).

Also, constant with Blank and Dorf (2020) customer discovery phase and therefore finding the "perfect" customer is key to accelerate growth in the early stages of the startup journey. As Sarasvathy and others (2009) state entrepreneurs see the big picture through various means (i.e. what might be the realization of not-yet-reality through their network, contacts and other resources) and they (i.e. entrepreneurs) use heuristics (Kahneman, 2011; Sarasvathy, 2001) to formulate the vision into concrete steps. In contrast to mere mortals and first-time founders as seen in this study the end state of the thinking is therefore different since the principles entrepreneurs use is affordable loss, strategic partnerships and leveraging of contingencies (Sarasvathy, 2001).

Constant with contemporary business model literature (Magretta, 2002; Osterwalder & Pigneur, 2010; Knapp et al., 2016) the most important aspect of the business model starts with customer segments (e.g. Blank & Dorf, 2020) since the product market fit could be found only through customer discovery and validation (Ellis & Brown, 2017).

As an anecdote, this study confirms with the Kahneman (2011) that capitalism relies on optimistic people. Without constant optimism and nitty-gritty there would be much less enterprises and thus value in the world. One could even argue that without optimism there would be no revolutionary products and services making life a lot easier, not to mention novel ways tackling global warming, aging population and plastic waste in the oceans impacting people's lives.

5.2 Implications for startup founders

There are many factors affecting decision-making in startup settings. Therefore, one could not give specific implications for fellow founders but rather rely on rather boring

generalizations in the complex reality. As this study only focuses on three strategic domain variations (customer segments, value proposition and rebranding) there are many other domains to left untouched. However, there are three major implications for startup founders based on this study: 1) get an advisory board as soon as possible, 2) discuss and do legal documents on the ownership structure, compensation and roles among co-founders that aligns with the targets of the startup, and 3) make contracts with first customers since mutually agreed verbal contract might not hold.

As the external business environment in startup settings is inherently complex it is beneficial for decision-making that internal roles, compensations and ownership structure are stable. Furthermore, the less time founders discuss the aforementioned topics the more time is devoted to scale and test the business model building blocks. Also, the legality and rigidity of the legal aspects of the startup is benefitting the owners in the long term when taking venture capital or other forms of capital on board since the people from the outside the startup often need legal proof of the ownership, thus minimizing the risks to lose more than invested. In a similar vein, customers and other stakeholders need to be taken care of in terms of contracts, preferably in written form. If the contract is made by two or more parties verbally, the partnership might not last when problems occur. The problems that might occur in the early-stages of the startup journey are often related to cash flow and thus affecting all the business model building blocks of the startup. The evangelists of the product might like it as long as it is free but since the legal right of the enterprise is to make profit for its owners the lack of cash is causing startup to think its purpose again. Written contracts give founders some peace of mind and more importantly, they give a clear sign of true users of your product. If the only reason customers are using your product is that it is free they might not be your customers at the end of the day.

5.3 Limitations and suggestions for future research

This study is prone to various limitations. For instance, the data collected from Slack does not contain all the possible (and partly) interesting chats affecting domains in startup journey. It might be the most visible in the vignettes shown in the rebranding, value proposition and customer segments domains whereas many conversations were held with customers to formulate business model building block as it is seen nowadays. Also, as not put into Slack many conversations were held on phone, Slack calls and other forms of spoken form, hence leaving no physical evidence what had been decided.

Other limitation is the author acting in two roles: the researcher and the co-founder of the case company. Inevitably, the setting has affected the decisions made during the action research. However, as the quotes are seen in the previous chapters, the author has not had the biggest impact on the decisions made since the decisions were made as founding team. Hence, the researcher role has been more as a reporting and documenting the decisions into a comprehensive story to the audience (i.e. mother of the author and the supervisor).

There could be various interesting avenues for future research in the startup literature. One could be the impact of the advisory board of the startup in the key decisions made in the case companies, preferably various case companies where the differences between startups could be identified. Since the most decisions were made without any external advice in this study, the outcome of the decisions could have been rather different if the advisory board was in place in the first place. Since all the co-founders were first-time startup founders the heuristics used were arguably less sophisticated compared to experienced founders. As the case company held only once talks with potential investors (see Appendix 4) the negotiations would have gone into different direction with the help of external experience in similar settings. Thus, one interesting topic to be examined would be researching the impact (if any) of the advisory board/other form of an external advice into daily decisions made by startup founders.

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Appendices

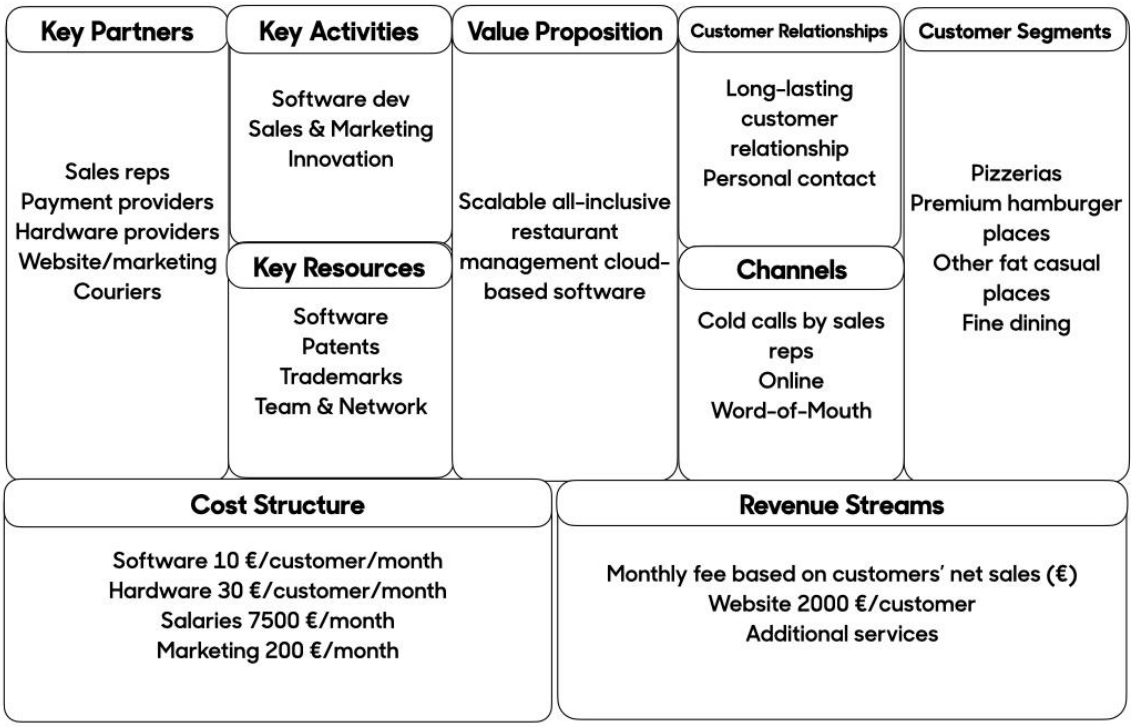
Appendix 1. System 1 (Kahneman, 2011, p. 105)

- Generates impressions, feelings, and inclinations; when endorsed by System 2 these become beliefs, attitudes, and intentions
- Operates automatically and quickly, with little or no effort, and no sense of voluntary control
- Can be programmed by System 2 to mobilize attention when a particular pattern is detected (search)
- Executes skilled responses and generates skilled intentions, after adequate training
- Creates a coherent pattern of activated ideas in associative memory
- Links sense of cognitive ease to illusions of truth, pleasant feelings, and reduced vigilance
- Distinguishes the surprising from the normal
- Infers and invents causes and intentions
- Neglects ambiguity and suppresses doubt
- Is biased to believe and confirm
- Exaggerates emotional consistency (halo effect)
- Focuses on existing evidence and ignores absent evidence (WYSIATI)
- Generates a limited set of basic assessments
- Represents sets by norms and prototypes, does not integrate
- Matches intensities across scales (e.g. size to loudness)
- Computes more than intended (mental shotgun)
- Sometimes substitutes an easier question for a difficult one (heuristic)
- Is more sensitive to changes than to states (prospect theory)
- Overweighs low probabilities
- Shows diminishing sensitivity to quantity (psychophysics)
- Responds more strongly to losses than to gains (loss aversion)
- Frames decision problems narrowly, in isolation from one another

Appendix 2. Prospect theory principles (Kahneman, 2011, p. 282)

- Evaluation is relative to a neutral reference point, which is sometimes referred to as an “adaptation level”. You can easily set up a compelling demonstration of this principle. Place three bowls of water in front of you. Put ice water into the left-hand bowl and warm water into the right-hand bowl. The water in the middle bowl should be at room temperature. Immerse your hands in the cold and warm water for about a minute, then dip both in the middle bowl. You will experience the same temperature as heat in one hand and cold in the other. For financial outcomes, the usual reference point is the status quo, but it can also be the outcome that you expect, or perhaps the outcome to which you feel entitled, for example, the raise or bonus that your colleagues receive. Outcomes that are better than the reference points are gains. Below the reference point they are losses.
- A principle of diminishing sensitivity applies both sensory dimensions and the evaluation of changes of wealth. Turning on a weak light has a large effect in a dark room. The same increment of light may be undetectable in a brightly illuminated room. Similarly, the subjective difference between $900 and $1,000 is much smaller than the difference between $100 and $200.
- The third principle is loss aversion. When directly compared or weighted against each other, losses loom larger than gains. This asymmetry between the power of positive and negative expectations or experiences has an evolutionary history. Organisms that treat threats as more urgent than opportunities have a better chance to survive and reproduce.

Appendix 3. Business Model Canvas, Epirest TM 30th May 2022



Appendix 4. Angel investors' questions

1. Does Epirest currently have any commitments in any direction (written or verbal)? For example, something is promised, someone did things for which there is still no compensation (logo, code, sales). Have the customers been promised anything and are all current sealed deals agreed in writing?
2. In the business plan, there was a reasonably small amount reserved for legal fees, making written agreements, etc. Are, for example, the agreements already tested out with customers? And are trademarks and logo OK? If the goal is to open that

service at an American pizzeria, it may be that you need an American Delaware just to be sure, and it can be a reasonably expensive “exercise”.

3. Does the software have other goals than Wolt and Foodora integration?
4. What is the initial ownership structure based on, is it based on something the team has already done for Epirest, and if not, why is not a larger part in options, which are vested according to the goals of the company and the individual? This (ownership structure and compensation) should be very well thought out for the sake of all parties, and it will be looked at very carefully in this process.
5. If someone wants/must leave the company in a year, two or three years, how does it work in practice and is this agreed upon by the founders (written agreement)?
6. How many shares/options are planned to be distributed to future employees, has this pool already been made? At some point, there has been talk that someone could code and be compensated with some shares, and someone could market/act as the public face of the company.
7. Is the goal of this first €100 000 round (seed round) just to get a runway to raise the next funding round (in the winter)?
8. Now that there is €100.000 as a target (seed round), it would also be possible to split it into €50.000 + €50.000, where we (investors) will monitor what can be done with the first €50.000. For example, a certain amount of MRR (monthly recurring revenue) has been accumulated or a certain number of customers rolled into Epirest. You (founders) could also easily be tied into this, for example, how quickly the team could jump into full-time work.
9. Was it the idea that, in addition to financing, we would also do some code work and if so, what was that idea?
10. Then, as an important question, how are you prepared for the scenario that the cash is suddenly running out and you are not able to pay the salaries? Is there a clear and concise process for how to act in that scenario and is it documented somewhere, for instance, in the shareholders' agreement?

Appendix 5. Rafla Business Model Canvas dated 31th September 2024