The Influence And Impact of The Money Burning Strategy on The Future of Startups

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Abstract

The startup's goal to burn money is to generate brand awareness and generate loyalty. Startups will try to be the best in the eyes of consumers. Bubble burst is a phenomenon that occurs in the startup industry, which is quite horrendous and is the cause of mass layoffs. The purpose of this study is to analyze the money-burning strategy by startups and to find out the goals, benefits, impacts, and effects of the startup's money-burning strategy. Qualitative research using 111 startups in East Java. The results of this study (1) The money-burning marketing strategy is to promote by placing advertisements on social media such as Facebook, Instagram, TikTok, and Youtube, giving customers coupons, discounts, ultra-low price packages, profit points, and coins. (2) The impact of a cash-burning marketing strategy is the startup bubble bursting phenomenon, which has an impact on financial problems, layoffs, delays in the hiring process, and lower wages for employees. (3) The goal of a marketing strategy is to burn money, that is: to create awareness in the market and generate customer loyalty. (4) The benefits and reasons for a money-burning marketing strategy are: Accelerate company growth, survival in the industry, market acquisition strategies, and steps to kill competitors and attract new investors. (5) Companies that carry out a money-burning strategy are companies that invest in their future because the results cannot be seen immediately but require a time process. Companies must innovate by reading market signals and seeing which markets are growing.

Keywords
Marketing Strategy, Startup, Bubble Burst, Money Burning, and Layoffs

1. Introduction

The development of technology in Indonesia, which has entered the digital era is now a supporting factor to be able to develop investment and business, with all the convenience, efficiency, and convenience in shopping, which is one of the main missions of startup development business in Indonesia. Startups in Indonesia have grown rapidly in recent years, with the number of startups in Indonesia being ranked fifth in the world. And there has been a sharp increase in the growth in the number of startups. The startup bubble is driven by the difficulty of finding funding at the moment. As for getting users, the average startup has to burn money. The development of startups in Indonesia goes hand in hand with the growth of the internet from year to year. Internet users are getting easier and increasing every year, becoming a great opportunity for startup founders to develop their businesses.

Based on Startup Ranking data, as of March 2022, there are 2,331 startups in Indonesia, and they are in the fifth largest position in the world. The phenomenon known as the startup bubble in Indonesia is now on the rise. The impact of this phenomenon is so clear. Tech companies to startups are laying off workers on a massive scale. Several startups that have received large funding are no exception. For example, Gojek, which received funding of Rp. 20 trillion in March 2020, had to cut 430 employees in the next 3 months. Indonesia's bubble burst in May 2022, when Zenius, LinkAja, and JD.id made a large number of layoffs. Not only in Indonesia, but dozens of start-ups or startups to giant companies have also recently been laying off employees more and more. Some people consider this phenomenon part of the bubble burst when companies are no longer able to maintain business activities and have an impact on finances. Currently, 808 startups have laid off workers worldwide and 135,302 employees have been laid off. The proliferation of startups during the pandemic has created enormous challenges, and many have sprung up during the pandemic because it's the perfect time to launch a new product. The main challenge for startups is to find investors for business sustainability and upskilling. Many investors end up looking at startups that are experiencing

losses but have the potential to grow. Start-ups must choose to be profit-oriented or growth-oriented.
The purpose of burning money is to create brand awareness and generate loyalty. Startups will try to be the best in the eyes of consumers. One of the most effective strategies is to provide a lower price than the normal price. This strategy will attract the attention of consumers. In addition to brand awareness, another goal of burning money is to create loyalty. The loyalty of a startup will create a new and profitable ecosystem. If the startup can maintain this, it will provide stable financial value for the startup. The term burn money is an activity carried out by a new company or startup to spend its capital. Capital funds are used to finance all kinds of things in marketing. Burning money, also called the burning rate, actually only makes the cash flow get a red report card. This economic loss is not entirely detrimental, startups can take other advantages from this, namely, data use. The datum held from the results of burning money can be an attractive investment value in the future. Therefore, startups can still profit even if they have to burn money. This is what makes startups always implement a money-burning system.
The total number of this money burned can go up but not down. So, it is very important to take into account the burning of money. One of them is through the ongoing management of cash flow. Mismanagement of cash flow is a factor in business failure. The result will be fatal if implementing a money-burning system with poor cash flow management. Problems occur where many start-ups fail because the products they produce are not accepted by the market. Some startups fail due to unresolved financial problems. Likewise, startups that fail to innovate, so they lose competitiveness with new and big players. The impact of this problem is the Startup Bubble Burst, where startups reduce workforce or layoffs, reduce employee salaries, and delay the recruitment process. This event is one of the company's solutions to survive bankruptcy. Based on the formulation of the problem, a research question was obtained, namely How are startups' money-burning strategies? How to analyze the impact, objectives, benefits, and effects of the money-burning strategy?

1.1 Objectives

Based on the phenomena of the startup bubble, the startup bubble burst, and several problems that occurred, the researcher saw a business gap where the expectations desired by startups in burning money did not match the reality obtained. The main objectives of this research are (1) To analyze how startups burn money strategy. (2) To find out the goals, benefits, impacts, and effects of the money-burning strategy by startups.

2. Literature Review

To keep up with the times and advancements in technology, more and more old companies are co-founding new startups, which are subsidiaries of older companies. Not all digital startups in Indonesia are newcomers, startups are companies that offer the latest innovations that have never existed before. Aspects to determine the potential of the digital startup bubble in Indonesia can be seen from the irrational exuberance behavior of the community, (Kindleberger, 2011; 183) both as investors, founders, and consumers of digital startups. This fact can be seen from the behavior of consumers, investors, and digital startup actors, namely the number of digital startups that appear and the number of startups that close every year, how long the startup can survive in the sector, the number of digital startups that receive investment from the seed to advance stages.

2.1 Startup

A start-up business is a start-up business that is currently under development and is coupled with market research (Calopa, Horvat & Lalic, 2014; 19-20). Start-ups themselves can provide benefits if entrepreneurs can create technological innovations and make these products marketable. A startup is a temporary organization that aims to find a business model in an uncertain situation. In this case, startups can be said to be the first model for finding identity in a new business. Startups are human institutions designed to create products or services in extreme uncertainty and startups are designed to find repeatable and scalable business models. From this definition, it can be interpreted that a start-up is a start-up company designed to find the right business model for the company to survive in extreme uncertainty.

2.2 Money Burning

The phenomenon of burning money that is often done by startups has become an open secret. Burning money here is to attract the attention of consumers and spend a lot of money. Using a startup-style cash burn strategy is associated with high profits, but also the risk of losing your budget (Basco, 2014; 69). The distribution era came up with many strategies, some successful startups used cash-burning strategies that later developed into unicorns, bicorns, etc.

2.3 Bubble Burst

A bubble burst is an economic cycle characterized by a sharp rise in market values, especially asset prices, followed by a rapid decline or contraction in value or price. This price drop is known as a bubble burst (Basco, 2014; 98). A bubble burst is an economic growth characterized by a rapid rise in market value or asset prices. This rapid inflation is then followed by a rapid decline in value, which is called a bubble burst. A bubble burst is a phenomenon in which economic growth or a rapid rise in market value, especially asset prices, is followed by a rapid decline or contraction in value.

2.4 Layoffs

The financial crisis that occurs in the company will affect many things, including the consideration of reducing the number of employees. The startup bubble phenomenon in Indonesia can be bad news for companies and employees alike. The layoff is done by startups to streamline the size of employees and reduce costs that need to be incurred **(**Basco, 2014**; 77**). Layoffs are also one of the company's solutions to survive bankruptcy. When the company does not get good revenue, it has an impact on the difficulty of paying employee salaries. So, doing layoffs is one solution that is generally taken by companies so that they do not go bankrupt.

3 Methods

This study used qualitative methods, in which data were obtained from observations or observations of researchers related to the aspects included in the study, both participatory and non-participatory (Idrus, 2009; 61-62). The subjects of the study were 111 informants who started businesses in East Java, where they set up their businesses and operations and invested in them so that they could fund the operations and make a profit. 111 respondents were startups from a variety of industries, namely: financial technology, e-commerce, on-demand services, social and online media, travel, gaming, edtech, dating, agriculture, healthcare, software-as-a-service, Advertising, Food and Beverage.

4. Data Collection

This research was conducted in May 2022, researchers collected data from documentation in the form of writing, pictures, regulations, and policies that could be used to supplement the data that had been obtained previously from the observation activities carried out (Mulyana, 2013; 195). (1) Primary data are data directly collected by researchers in the form of surveys, interviews, and observations in exploratory qualitative research (Hermawan, 2006; 168). (2) Secondary data refers to the original data from a second or third party, taken from the survey results of economic research institutions based on digital technology and research on startups.

5. Results and Discussion

5.1 Burning Money in the Startup World

The money-burning marketing strategy implemented by startups is to burn the money or budget they have to give to consumers to expand the market and increase the number of users. From the results of interviews with 111 informants regarding the Money Burning Strategy by Startups, where the Startups did it in various ways, namely: (1) 111 informants stated that they carried out large-scale promotions by advertising on social media such as Facebook, Instagram, TikTok, and YouTube to introduce their products. Some of these social media ads are very large and cost money to eat into budgets. (2) 105 informants stated that they provide many vouchers, discounts, and super cheap packages to their users. They will also have different promotional packages for new and existing users. (3) 98 informants said that they provided a lot of vouchers in the form of free shipping, free consultation, and discounts on some products. (4) 75 informants stated that they also provide cashback, profit points, and coins through special games, which often make consumers addicted to following them. (5) Startups want to appear very generous in the eyes of customers, offering freebies, coupons, discounted prices, and very cheap packages when executing a cash-burning strategy. This fact is done not only to expand the market but also to attract customers from competitors to switch to their company's products.

5.2 Effects of the Startup's Money Burning Strategy

Based on the results of interviews about the effects with 111 informants who are startups that carry out a money-burning marketing strategy, they are experiencing financial problems because they have spent money to burn money. Some startups still rely on funding from investors to carry out their business operations. Because of these problems, the entrepreneurial bubble burst, namely: (1) 9.91% or 11 respondents made layoffs or layoffs. Layoffs are one of the company's solutions to survive bankruptcy. When the company does not get good revenue, it has an impact on the difficulty of paying employee salaries. Layoffs also occurred because several business units were closed. (2) 64.86% or 72 informants reduced employee salaries. This step is taken to reduce costs because the company has not been able to make a profit and does not want to lay off. (3) 25.23% or 28 informants delayed the recruitment process. When the bubble burst occurs, this fact forces the company not to recruit new employees to maintain its expenses. Here they do not reduce labor or layoffs and reduce employee salaries.

5.3 The Purpose of the Startup's Money Burning Strategy

Based on the results of interviews with 111 startups, they are of the opinion that the objectives of the Money Burning Strategy are: (1) Generating Awareness, to steal market attention or awareness. They provide many cheap all-inclusive packages and discounted prices are one of the most effective ways to convince consumers to approach. They allocate funds for this strategy, which has been determined by the target implementation time and user achievement. In this money-burning strategy, they will slowly manage to be reduced and finally stopped after the target market has been reached. (2) Generating Loyalty in the market. They argue that consumers always compare one startup to another with the easiest and most convenient features to use. They think that the most important thing is the price issue, giving such a low price, free shipping, and discounted prices will increase consumer confidence about the convenience of using it.

5.4 Benefits of the Startup's Money Burning Strategy

From the opinion of 111 startups, they explained the benefits and reasons for implementing a money-burning strategy, namely: (1) They can accelerate the company's growth. Start-ups certainly need to grow faster. They need to do everything possible to accelerate, including the burn rate. (2) They want to stay in the business. A company cannot survive without profit. This profit can be obtained from the sale of the products owned. For people to be interested in buying the product, the Startup must make it attractive by subsidizing customers with discounts and vouchers to stay in business. (3) They carry out a market acquisition strategy, by adding customers. This strategy will make an item more attractive so that the target market becomes wider. (4) They use this strategy as a step to kill competitors by posting promotions. How to expand the market and attract customers from competitors to switch to products that belong to their company. The more customers who switch, the more sales from competitors will decrease. (5) They want to attract new investors to invest. The money-burning strategy will increase the value of a startup company and create a good portfolio for new investors in the future who will get additional capital for business continuity.

5.5 Causes of Startup Bubble Burst

The results of interviews with 111 informants, where argue that the money-burning strategy is one of the causes of the startup bubble burst phenomenon. They communicate several factors that contributed to the bursting of the startup bubble, as follows: (1) They believe that the current decline in market share is one of the reasons for this phenomenon. When the product or service offered by a company is unable to compete in the market, its performance does not satisfy stakeholders and investors. Startups cannot sell their products or services, they will lose profits and cause their market share to drop significantly. (2) They argue that investors are more selective in funding, because there are more and more new startups emerging that become their competitors. This fact has led to intensifying competition among startups to persuade investors. (3) (3) They think the pandemic situation is getting better. At the beginning of the pandemic, many startups appeared and offered their products or services as a solution for people to ease their activities. As the pandemic conditions improve, startups are starting to have difficulty selling their products. (4) They explain that, the condition of demand for a product or service has reached its peak, or market conditions are saturated. The market is sensitive to promos and discounts, so companies or startups will lose customers if they don't offer these two things. Too often offering promos or discounts can disrupt the company's cash flow and revenue.

6. Conclusions And Suggestions

6.1 Conclusion

Based on the studies that have been done, it can be concluded that: (1) The money-burning marketing strategy carried out by startups is to promote by advertising on social media such as Facebook, Instagram, TikTok, and YouTube, burning the money or budget they have to give to consumers, to expand the market and increase their customers. Startups offer coupons, discounts, super cheap packages, profit points, and coins to their customers. (2) The purpose of a start-up is to carry out a money-burning marketing strategy, namely: Creating Awareness by stealing the market's attention and Generating customer loyalty in the market. (3) The benefits and reasons for start-ups to do money-burning marketing strategies are: Accelerating company growth, surviving in the industry, market acquisition strategies, steps to kill competitors, and attracting new investors. (4) The impact of the money-burning marketing strategy is the Startup Bubble Burst phenomenon as follows: The financial problems have grown larger due to difficulties in securing funding from investors and a slew of layoffs. Layoffs are one of the company's solutions to survive bankruptcy, the company delays the recruitment process to maintain its expenses and reduces employee salaries so that companies do not need to lay off. (5) One of the reasons for the phenomenon of the bursting of the entrepreneurial bubble is the decline in market share. Startups cannot sell their products or services, they will lose profits and cause their market share to drop significantly; Investors are more selective in funding, due to the increasing number of new startups emerging; The pandemic situation is getting better. As the pandemic conditions improve, startups are starting to have difficulty selling their products; A saturated market, where the demand for a product or service has reached its peak. (6) Companies that carry out a money-burning strategy are companies that invest in their future because the results cannot be seen immediately but require a time process. Companies must innovate by reading market signals and understanding which markets are growing. (7) The cost of

spending to burn money is not only seen in marketing strategies with promotions to pamper consumers but there are several operational costs outside of marketing costs incurred when the company is in the process of growing or is not in a good condition.

6.2 Suggestion

Based on the conclusions that have been obtained in this study, there are several suggestions as follows. (1) Startups should see if their business can generate a turnover or not. The market fit product is on target or not. (2) Startups must learn to adapt quickly to see their business turn a profit. (3) Startups must be able to read from the side of investor sentiment that investors are not only looking for companies that grow (growth), investors are also looking for profits. (4) Startups should not depend on funding from investors. Startups must be able to use the existing money to continue to be rotated and reinvested for the growth of their company. (5) For fresh graduates who want to start a business, it's important to remember that entrepreneurship is risky, and good startups are created to solve problems that exist in society, not to be a get-rich-quick means. Beginners can develop skills and gain diverse experiences. (6) Startups should focus on the business competition by reducing the amount of capital burned, Delaying spending wisely, namely expenses that are not related to profits, and Eliminating unsold products by selling products that can immediately provide profits and are sought after by many people, Reduce routine expenses monthly by making savings.

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Biography

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