

Executive Summary

Young firm growth dynamics – a longitudinal analysis with German sales tax data

von Hans-Jürgen Wolter, Arndt Werner und Stefan Schneck

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Institut für
Mittelstandsforschung

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This paper utilizes German sales tax data to identify stylized growth patterns of newly founded firms in their first seven years. In fact, we examine newly founded firms in the years 2002, 2003, and 2004. In sum, we identify 387.818 firms and assign their sales development to seven stylized types of growth. In line with literature, the newly founded firms grow fast in their first years, whereas smaller start-ups grow at a faster rate than larger ones.

Comparatively stable development

In the first period after the market entry, more than three in four newly founded firms experienced sales growth. We also found that more than each fourth newly founded firm increases sales continuously over time. This indicates a comparatively stable development of young firms that survive for at least seven years on the market, despite business cycle effects or other short-term developments that might affect the economy. Continuous growth is most common among very small new ventures that started up with sales of less than 50.000 €. Across sectors, manufacturers as well as not business-related service providers are especially likely to grow continuously in their first seven years.

Voluntary growth barriers

Permanent stagnation of newly founded firms is evident for 7.6 % of firms. Stagnation is most common in the business-related service sector, where it is reasonable to expect that the self-employed might be satisfied with the achieved income level. In addition, these firms might also be subject to voluntary growth barriers, which might originate in the desire to remain solo-self-employed rather than to hire employees. Future studies are encouraged to describe this pattern.

Unsuccessful – but still in the market

We also find that 16.9 % of all firms experience continuous declines in sales over time, but do not leave the market within the first seven years on the market. These businesses must not necessarily be unsuccessful. In fact, these firms might still develop their technologies and products. For this reason, some of these firms might exit the market, but others can be expected to be high potential firms with exponential sales growth in the future. We encourage further analysis to describe the characteristics of these firms. Other studies might ana-

lyze the survival patterns of these firms in later years, when longer time horizons can be investigated.

Our paper reveals that growth patterns of single companies are highly individual. This is also confirmed once we aggregate growth patterns into seven highly stylized growth types because we do not find clear support that only the growing firms survive in the mid-term. In fact, we show that at least one in five firms stagnates or even decreases within the first seven years of existence.

Wolter, H.-J.; Werner, A.; Schneck, S. (2015): [Zur Entwicklungsdynamik neugegründeter Unternehmen – Eine Längsschnittanalyse auf Basis des Umsatzsteuerpanels](#), in: IfM Bonn, IfM-Materialien Nr. 238, Bonn.