Why startups fail?

Entrepreneurial Failure

Definition: According to the entrepreneur, undesirable stopping the company.

Concept of Entrepreneurship Failure

- A recent global survey showed that 80% of new startups disappear before the first 18 months, and of the remaining 20%, 95% cease to exist after three years.
- Failure is what we say “experiment going wrong”.
- It is an attitude of sitting back, feeling dejected, and pitying yourself.

WHY START-UPS FAIL TO TAKE-OFF?

1. *Building A Wrong Product*

42% of the startups that begin enthusiastically thinking they will change the world, are actually not needed at all.

Case:

Title: An experienced startup founder learns some new lessons
Product: IntroNet
Mike Krupit, CEO of IntroNet, a service for professionals to make and track introductions, wrote a lengthy post about the factors that contributed to the company's failure:

On the surface, the business didn't succeed in the first two iterations of IntroNet for the same reason that 90% of tech startups fail: we did not find a product-market fit before the end of our cash. It's a math equation that is pretty deterministic. Why didn't we find product-market fit? Perhaps we were solving for a pain (e.g., LinkedIn sucks) instead of a real problem (e.g., I can't find expertise)?

2. *Not Being Able To Build The Right Team*

In a hurry to launch their product early, startups tend to build teams with people who have little or no interest in the product idea.

Case:

Considered for most of the decade one of Toronto's hottest startups, Hubba hit choppy waves in 2018, as the company lost its chief technology officer and chief marketing officer in an three-month span, in addition to two rounds of layoffs which saw headcount reduced by almost half.

It is unclear to what extent the COVID-19 pandemic had hampered Hubba's growth and customer base. However, one source BetaKit spoke with claimed a months-long battle between [Hubba CEO and founder Ben] Zifkin and Hubba's board of directors regarding the ongoing viability of the company."

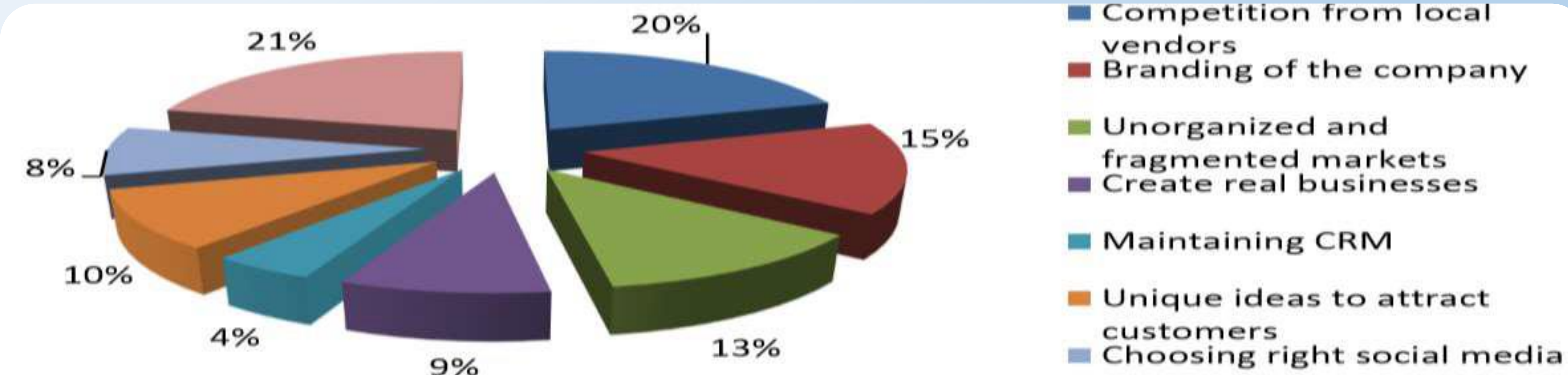
3.Conflict between cofounders and lack of a common vision

- It is important that they should be on the same page.
- Differences between founders affect growth of the startup.
- They struggle to raise fund.

4. Lack Of Unique Value Propositions

- If product fails to deliver one or more UVP as compared to similar products available in market already, your product is bound to fail.
- At least four UVP which will help you stand out and give a competitive advantage increasing profits.

Case:
8tracks
Title: [To everything there is a reason]
Product: [8tracks]
After 11 years, music streaming platform 8tracks shuttered, citing lack of revenue and increased competition from big players.
We lost listenership, in large part, because Spotify was able to satisfactorily address listener needs for music discovery and activity- and mood-based listening over time, as it improved its offering, reducing the relative appeal of 8tracks' early lead in delivering on its unique value propositions through a crowd-curated model.



5. Lack of persistence

- No strong passion for the product, Not able to persist through the bad times
- Bad times question the faith of founders in their product.

Lack of persistence was the third most commonly mentioned reason for startup failure. As Jason Cole, CEO of Da Primus Consulting, puts it, "The leadership is unable to set a clear strategy for the company and stick with it long enough to succeed, resulting in a lot of wasted money and energy from constant changes in direction."

6. CEO / founder(s) unable to make decisions

- Clear vision about startup helps in making quick and efficient decisions in critical times.
- Unclear of their own path, leads to wrong decision.

7. Failing to pivot/change direction

- Due to the love for their initial/first product, building a wrong product, do not pivot.
- leads to wastage of time, resources and money too, eventually leading to failure.

But as Elza Seregelyi, director of L-SPARK, warns, “Inability or unwillingness to adapt or pivot quickly when there is lack of product market fit. Some founders can’t take a hint, or choose to outright ignore the data. There is a fine line between persistence and stubbornness and sticking with a product or business model that is not gaining traction is just wasting resources.”

8. No mentors or advisers

- Going alone there are more chances of you making mistakes .
- Mentors can guide you in day to day decisions to avoid falling off the cliff.

9. Slowness to launch

- Every idea dies if it is not implemented on time.
- Secondly, your product may actually leave behind the competition, which leads to product failure.

10. No business plan

- Every startup must create a business plan to articulate every single aspect
- Business plan will give you a clear idea of your operations.
- Lead to lose one or other important aspects of startup.

11. Unaware of competitors and changing market condition

- Should be address regularly and carefully
- Launching something which is already there in market or over pricing products which are available at cheaper rates etc.

12. Not raising funding at the right time

a) No Time for Experiments and Analysis

• Just look at Housing.com and TinyOwl. These are the biggest failed startups of India which failed with more than Rs 100cr funding in individual accounts. These startups raised funding on very early stage on the basis of an idea due to which they missed the experimental part or you can say the product analysis part and failed drastically.

b) Share Distribution Problem

• If you show too much urgency in raising the funding or you apply for funding before achieving a good level then you need to give more shares to the investors for a small amount of money. Due to which you remain with very few shares, that means less ownership or less power while taking any decisions, And the worst part is you feel that don't have much equity in hand to barter against money when you actually need money for the company.

Just look at Flipkart and Amazon. Flipkart by Sachin Bansal and Binny Bansal was started in September 2007, while Amazon by Jeff Bezos was started in July 1994. But you will feel amazed by the fact that Binny Bansal and Sachin Bansal had 7.5% shares of Flipkart each while Jeff Bezos still have 18% shares of Amazon. This is the reason that recently Flipkart had faced a major reshuffle when Sachin Bansal was removed from the post of CEO despite being the founder.

13.Lack Of Innovation: Whether you talk about Flipkart, OYO Rooms, or OLA Cabs they all are copied from the US startups in some ways. Flipkart copied Amazon, OYO Rooms copied Airbnb and OLA Cabs copied Uber. You might feel amazed that these 3 startups are one of the best startups in India in today's date and they are copied. This is the only fact that they are not earning profits.

Flipkart loss increase from Rs 1096cr in FY15 to Rs 2306cr in FY16 as stated by business-standard.

Similarly, OLA Cabs also make a loss of Rs 796cr in comparison with a revenue of Rs 421cr in FY15 as mentioned by economic times.

These stats clearly shows that you can only copy an idea but you cannot copy the brain to run that business and that brain is very necessary to increase the workplace productivity of startup.

If we keep stats aside and only look into the innovation part then also you will feel disheartened while looking towards best startups of India. Let's have a look on best food startups of India vs best food startups of the world.

India's best food startup includes zomato, swiggy, fassos etc and you will not find anything interesting in them just an online delivery of food but if you look towards USA startups it includes Soylent (artificial meat making), Solazyme (make superfood from algae) etc. It's clear how much unique and innovative idea Indian founders are using nowadays.

In entrepreneurship you need to be unique and creative on each second, you cannot make much profits if you are just copying other people.

14. Wrong Salary Combinations

• One of the common mistakes of Indian startup founders is that they are trying to buy leaders for their company instead of preparing leaders.70%-80% of startups are hiring employees from big companies by giving them the double salary, yeah you heard it right, double salary; and that makes an unnecessary financial burden.

Everyone is trying to copy Facebook and Google in term of giving high salary but they are not looking the fact that Google and Facebook are not giving the high salary from the 1st day. Flipkart was also doing the same mistake. During the recent reshuffle, the news came out that Flipkart is paying more than Rs 10cr to 5 of its employees.

In some cases, founders also start using company’s money for show-off and that the pathetic part. If you want to be a successful entrepreneur then you should keep the following quote in your mind.

• "The aim to become Rich, Not to Look Rich“

15. Wrong Combination of Branding Vs Marketing

Branding and marketing both have their own importance in acquiring a customer. You cannot lead the market by opting only one out of the two. Branding increasing the trust among customers while marketing generates the leads of the customers to acquire them. But it's highly important to make a right combination of branding and marketing. Let's have an example for better understanding.

Let's say you own a shoe factory and you sell a pair of shoe pair for Rs 3000- Rs 5000 and only invest in marketing.

Then who will buy your shoe?

Probably 1-2 out of 1000 customers, because in this budget they can easily get a pair of shoe from Nike, Puma, Adidas. These brands are more trustworthy to him because a customer sees the advertisement of these brands everywhere; in malls, on the websites, in cricket/ football games everywhere.

But if you sell a pair of shoe for only Rs 500 then you need not do branding because you don't have any competitor in this range which can be seen everywhere.

So the combination of branding and marketing is completely dependent on 2 things, 1st is your target market and 2nd is your competitor.

But Indian startups are not making good ratios of branding vs marketing this is the only facts that they are facing such a huge losses.

16.Technology

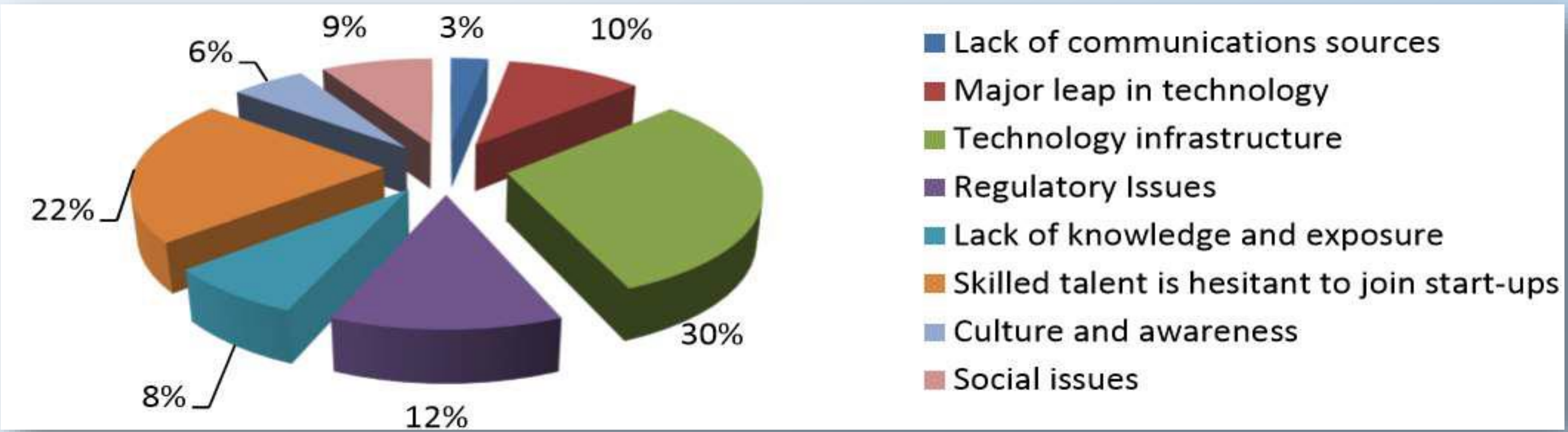
- Technology infrastructure -Appropriate IT-infrastructure has become a need for Indian businesses
- Absolutely vital for new startups to train their employees

17.Cyber security

- Most startups have a B2B business model.
- No back-up plan to keep the startup company running

19.Growth Decelerators

- Parts of the startup, sometimes become hurdles in the growing stages.
- The influence of incubators, institutes and similar organizations.
- Needs proper coordination among the organizations for mutual benefit.



20.Financial Resources

• Family members, friends, loans, grants, angel funding, venture capitalists, crowdfunding

• **85% of new company's reportedly underfunded indicating potential failure.**

• **43% of startups in India borrow from informal sources.**

21.Revenue Generation

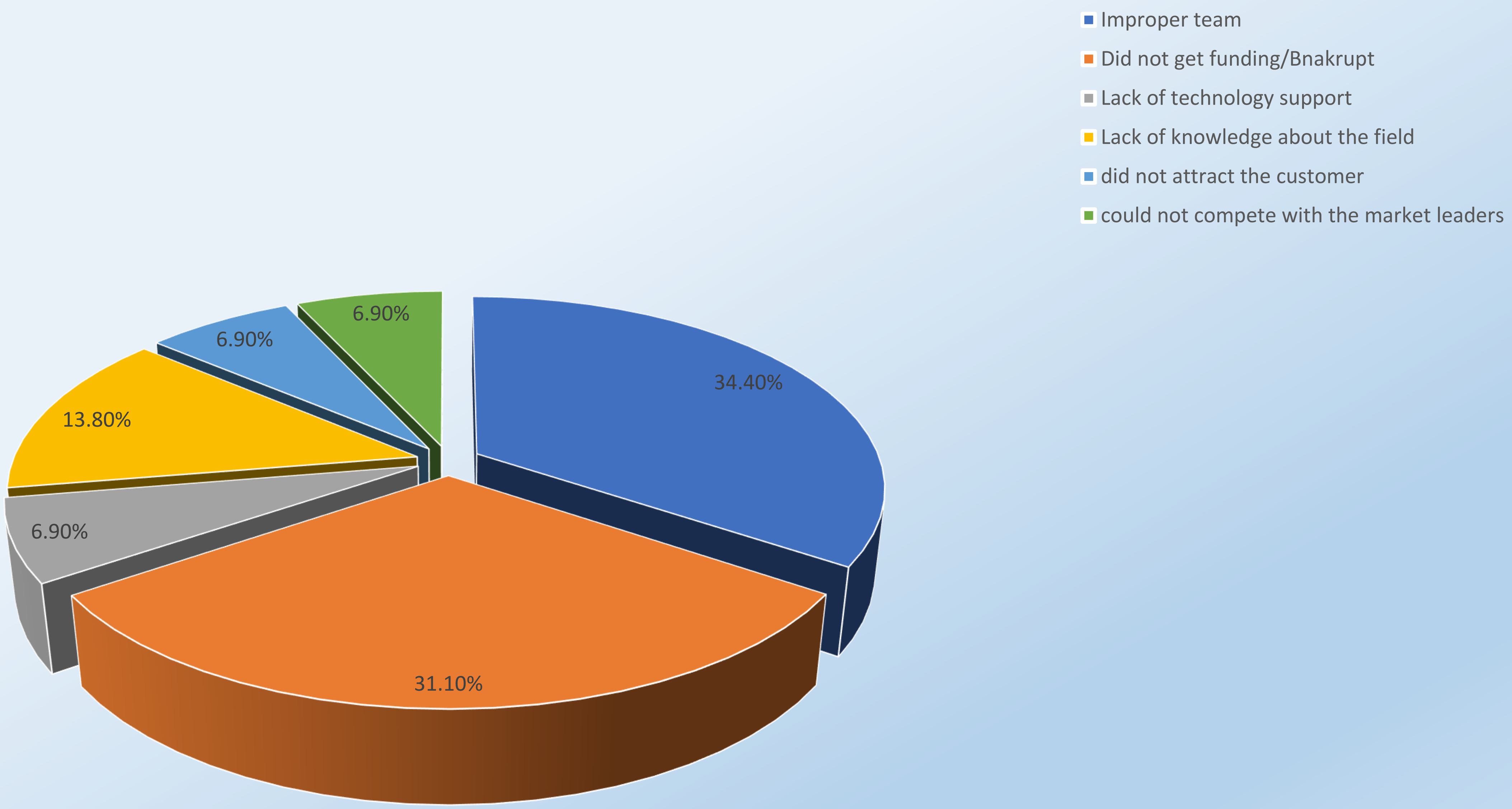
• As the operations increase, force startups to concentrate on the funding aspect, thus, dilute the focus on the fundamentals of business.

• The challenge is not to generate enough capital or spending but to expand and sustain the growth.

22.Government policies, taxes and regulations:

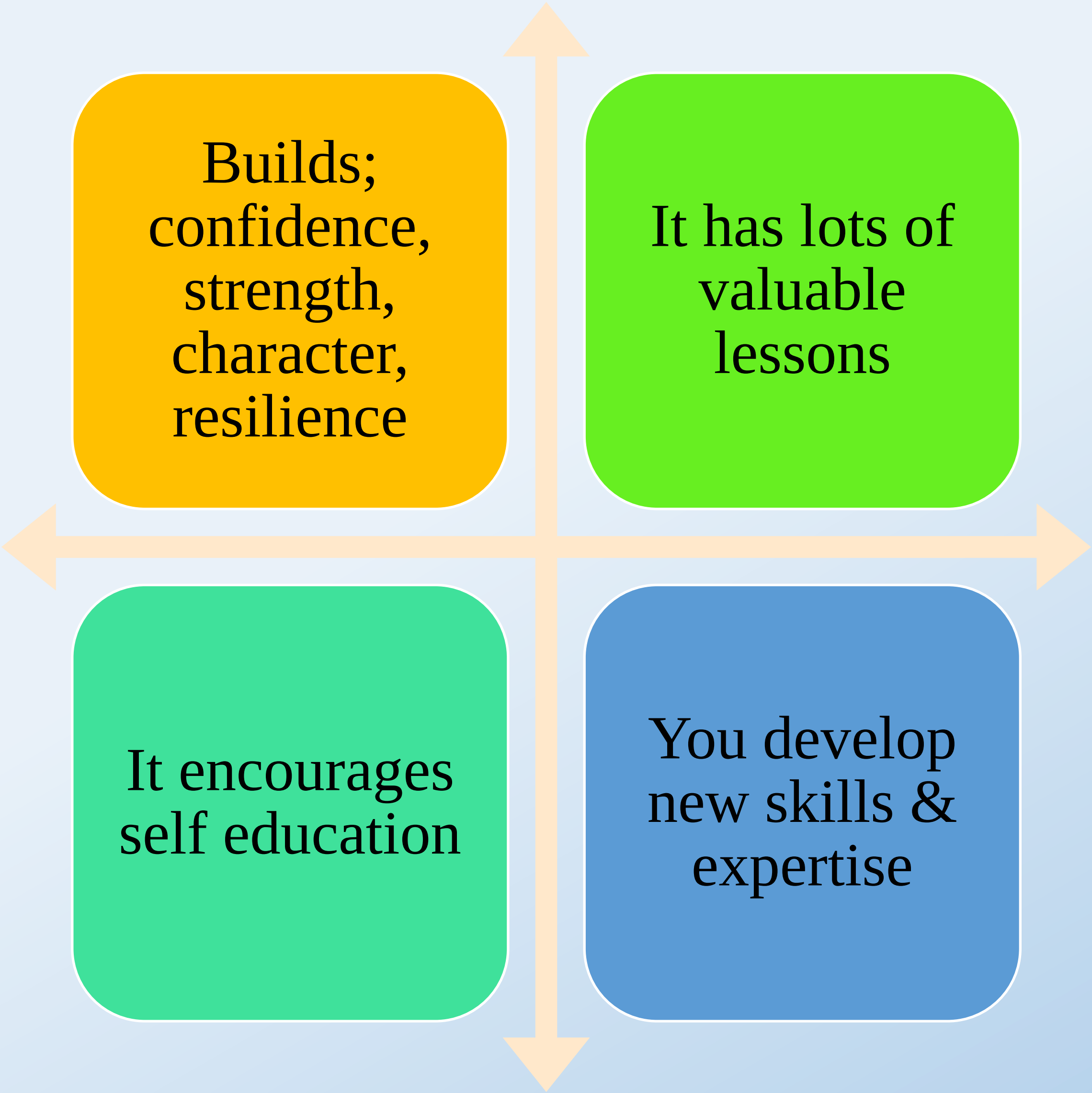
- ANGEL TAX- 30% of funding above FMV
- FDI and FPI policies
- Lack of start-up policies
- Labor laws: about 250 labor rules at the central and state levels
- Corruption: about 80% of Indian entrepreneurs says corruption getting worse.
- Global Intellectual Property Center’s International IP Index 2019, India ranked 40 out of the 50 countries

Major share in failure



Why Entrepreneurial Failure is Significant

- Severe Emotional & Psychological trauma
- We loose lots of money: Life savings
- We are ostracized in our communities
- Jobs are lost, people go hungry



Why Entrepreneurial Failure has Value

What to do when fail
THE TAKE HOME MESSAGE

First things first: Your Feelings

Give yourself time to grieve; you will need it. Loosing everything you have built and worked hard to achieve is not easy, be fair and kind to yourself.

2.Give yourself time to appreciate what you have achieved. Yes, you need more time to reflect.

3.Get yourself a small note book

4.Write down all the feelings you felt when you first realized your business was failing, right up until the day you shut your doors. Writing is therapeutic, It will take that weight off your shoulders

When you fail; fail forward

1.When you fail, forward, do not wallow on your failure.

2.In your note book, list all the things you think you did well

3.List all the mistakes that you think you made

4.Against the things you did well, write down what you think you can do to improve the good work you did.

5.Against the mistakes, write down what you think you can do to correct your mistakes the next time round, seek advice if you need to.

Moving forward

1.Join a small business or entrepreneurship network

2.Get a mentor

3.Ask for advice from your mentor and or networks about how to deal with failure

4.Talk about your failure openly and honestly

Conclusion:

- Startups and small business have a vital role in economic development.
- As per CMIE unemployment report, states with better startup performance having less
- unemployment rate.
- The government and institutions need to work more on employability rather than
- employment because graduates lack in skills.
- For better economy there is need of young working people to begin innovative startups
- and a better government to create conducive atmosphere to scaling up
- Failure is an opportunity for learning.
- Business Success is dependent upon reactions of business failures
- Knowing what can go wrong is essential to avoid business failure
- Success and Failure exist in relation to expectations
- Most causes of failure are under the control of the entrepreneur.
- Entrepreneurs can avoid venture failures by managing known causes of failures which are under their control.

Your Turn!

Please write down Start up Story and also analyze the reason for failure -5 marks

Thank You