The 10 most common reasons why startups fail

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Common numbers of the startup world point out that 1 in every 5 million non-funded startups reaches unicorn status – worth at least $1 billion. For every funded startup, only 1 in 10.000 become a unicorn. If we consider that only about 1% of startups that are looking to raise venture capital actually end up getting funded, those numbers are even harder to read. Good founders and good entrepreneurs must be very good in risk mitigation, or they might just fall for 10 of the most common reasons why startups fail worldwide. Below we analyze those most common risks and suggest some actions to prevent them.

1. No market demand for your product

What we see too often in the startup scene is that a number of companies believe their invention is so appealing that the market will beg for it and money will begin to flow in. Most startup founders do not fully understand what their product might be able to achieve in the market – especially in the early stages. That is the reason for many pivots – when a company changes its course and product to satisfy another market. If they could validate their product in pilot projects before launching, or even beta-testing instead, those entrepreneurs might reduce significantly their failure and market rejection risk.

2. Lack of skills needed for the business – in founders and in the team

Many founders can't do what is needed for a business to take off. They should concentrate in industries that value their skills and educational background, besides their professional expertise. This will boost their odds of success and the practice and dedication they will inject in the business will not be a burden for them. Your skills must be complemented with the ones of your team. Always have someone good at sales, someone good at management and bookkeeping, someone good at marketing and someone good at product development. Customer service, business development and legal in-house employees can land on the company in a second phase. If you or your co-founders lack the skills or abilities needed to get your company going, be sure to identify those needs early on and read, study, learn and experience theoretical and practical knowledge that can give you the upper hand against your competitors and prevent your company from crashing.

3. Ignoring and not avoiding cash burn

Many startup founders are technicians and engineers at heart – meaning that they want to build the perfect product or solution to one problem and only launch after that. That can become a major problem when you must be cashing in the earliest possible for your company to keep the doors open. Important signals to identify in order to prevent cashflow problems are usually low profit margin, high payroll costs, small recurrence purchases, clients delaying payments and high churn rates. The more your startup's cashflow see those situations, the closer you are to stretching the treasury and having the need of more cash, because of big distances between paying suppliers and getting paid by customers. Always try to negotiate terms with your suppliers that are longer than the payment terms you give to your customers. Spend only on essentials and do not be extravagant on your company spending in that phase. Ask yourself if that exhibition or that fancy office is really a mandatory piece for your puzzle and if that will bring the ROI you and your colleagues expect.

4. Reluctance to get feedback and criticism on prototypes
Many founders have a hard time letting others see their prototype until it is reasonably ready. Failing to get feedback from potential customers is usually fatal to a startup. Do not be afraid of someone stealing your idea or that your prototype will not be perfect to be shown to the first people. With technologies democratizing prototypes production for hardware and software, there is a good chance that getting a few prototypes made and having them tested with feedback from those who tested it – like in focus groups – will put you in a product improvement and learning loop that shall be repeated until people begin to demand your product.

5. The market might not be ready for your product
Some companies launch products before their time and either the market (demand/need) or the technology is not there yet. Others launch too late, although they might not notice that it would be too late already. The key factor here is to always question yourself with competitors benchmark and with common sense when sales are not taking off. This would be the best time to call a "stop loss" and pivot or invest time, capital and efforts in another market.

6. Weak team, poor leadership
At any stage, a good leader has the charisma and track record to inspire a compelling vision for the company and its future, recruiting committed employees instead of top talent who will fly to the next offer very soon. Employees committed with the company mission and vision will help the founders realize their vision, not the so much "top talent" cherished by the media.

7. No real interest in the market you are operating in?
To be a successful founder you will need to spend about 60 to 90 hours a week with very little or no pay to make your startup take off. It is not possible to work that hard and be effective unless you believe in what you are doing and trying to build. It is not possible to do that if you are not 100% committed to making potential customers improve their lives by providing them your company's product or service. Shift your startup in the direction of solving a problem you care about honestly and profoundly. Many times, it is an underserved problem or a problem nobody has solved yet that makes people want to start their own companies offering a solution for that problem – and in case several other people have that same problem or concern, your company is off to a good road.

8. Inability to raise capital
People may always be surprised by the time and number of rejections required before they succeed in raising capital for their startup. Too often this process is started too late and the entrepreneur goes to the rescue with the wrong group of investors – the first ones. Fundraising in a startup environment is something that needs at least 6 months of active prospection, meetings, calls and visits. The more you are in the routine of fundraising, the

more precise you are about what you need as a company and what investors who are looking for your profile want. Make a committee responsible for this and name at least two people who will be responsible for raising funds and report to the team every 2 weeks.

9. Poor marketing (and/or sales)

Noise matters and no matter how great your product may be, it's going down if no one knows about it. Poorly managed marketing (or sales) is a major reason for the failure of many startups. You don't necessarily need a professional PR team at the beginning, but you need to create buzz in social media and in the press about your company and products. Also, be sure that when you get published in the magazines and websites – that they are authoritative and popular for your audience. If your company cannot manage marketing properly, no one will know about your product, therefore no one will buy it. Spreading the word may seem a waste of time for some founders and more technical teams, but it is fundamental for a business to survive.

10. Ignorance of what your customers want

There is not enough stress I can put on how important it is to launch a minimum viable product and get feedback from customers again and again, for product development and testing over and over. This allows you to build a bridge with your audience and incorporate changes in the product that will hook your customers to the next versions of your products and services.