Venture Capitalists: #1 Cause of Hardware Startup Fails?

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Andy Gibbs October 6, 2017

I love it when Anand Sanwal's newsletter hits my in box, but last week one of them became ground-zero for my own teardown of CB Insights' teardown of hardware startup failures; ***"Why Do So Many Hardware Startups Fail?"*** Catch it here if you missed it.

First, I'll admit to a click-bait title. Perhaps accusing venture capitalists of killing their own companies is not the best idea, especially since our hardware startup is now conducting its own Seed / Series A raise. But I'm betting on finding those few investors who can recognize the durability of a company built **from the Bottom-up**. More on that in a moment.

In this blog article, I attempt to illustrate the market-driven foundation of Unicorn, Inc., and describe why I believe it will excel where other hardware startups have failed.

The "CB" article tears down **Juicero, Jawbone, NJOY, Pebble** and other humongous (relative size of capital investment) hardware startup failures. The first three companies alone burned through a combined $1 billion worth of venture money before being yanked off of life support. CB Insights listed the top 4 reasons for hardware startup fails:

1. Lack of consumer demand
2. High burn rate
3. Lack of interest after initial crowdfund
4. Product strategy mistakes

I was disappointed. The #1 underlying reason didn't make the list. Even CB's expert researchers completely missed the elephant in the room: ***Venture Capitalists****!* *Seriously, capital that's fed to an inherently disadvantaged company too often ends up as a big loss.*

To be fair, as CB points out,
hardware companies are a different
breed of animal. They are capital intensive, inventory intensive, facility intensive, and they carry a hefty Cost of Goods that scales in a direct relationship with revenue – unlike software companies in which the COG withers to near insignificance, inversely related to revenue. But some hardware companies win big, and that drives the bet.

A disadvantaged hardware startup overlays that long list of hurdles with the hope of *creating* consumer demand rather than *creating innovation* that serves established consumer demand. Despite insane capitalization, most of those companies never reached the tipping point.

A few years back, *Wall Street Journal* tech writer Christopher Mims postulated that venture capital was chasing advertising – pushing innovative products into apathetic markets, rather than backing innovation that gets *pulled* into a market by already established consumer demand.

Enter Abraham Maslow. His 1943 paper "A Theory of Human Motivation" prioritized drivers of consumer demand as illustrated in the pyramidal hierarchy of human needs. Each stratum layer ascending upward from the base marks a decreased priority of needs (a "need" descends to a "want", then merely to a "desire"). I've long determined that company offerings that serve the foundational stratum, Maslow's "physiological" elements, are indeed addressing a demonstrable market demand.

However, building a company around that foundation doesn't guarantee success. High consumer demand create a large field of competitors, so pricing, quality, timing of "new and improved" innovation, sales channel, market positioning and market protection (patents) all figure into the success calculus (one reason Unicorn spent three years on IP strategy).

That said, I argue that a company built around a product/market core defined by a stratum layer higher up on Maslow's pyramid requires logarithmically increased advertising investment to overcome inherent lack of consumer demand.

To illustrate my thesis, the mashup of CB's "lack of market demand" data and Mim's assertion that venture capital might be chasing advertising, I'll perform a different kind of postmortem on Juicero.

When Juicero's product was first released, I asked myself how many consumers are *demanding* that a $700 "smart" juice machine the size of a 5-gallon paint bucket occupy half of their little kitchen counter (leaving no room for their "smart" coffee maker, "smart" countertop oven, Alexa, or even the dumb toaster)? My answer then is the same as today: none.

I wonder if Juicero's market research determined the average kitchen counter area in their targeted consumers homes, but I digress.

Anyway, how does one product win the coveted kitchen countertop space when the consumer doesn't care about cluttering up the counter top in the first place? With heavy investment in advertising, hoping to create hype. that's how. But extreme advertising pushes the burn rate (CB's #2 reason for failure) into orbit, feeding the addiction for increasingly large investment rounds. Juicero never met the threshold, and investors ultimately cut off supply to the addict.

In fact, none of the dead hardware companies profiled were built from the "Bottom-Up", built on the foundation of Maslow's hierarchy of real needs that drive real demand – like food, water, and air. The article's featured hardware startup fails banked on consumers' *Self-actualization* and *Esteem,* hoping to extract discretionary dollars from thousands of Apple Pay wallets.

On the other hand, the *Ring®* camera-in-a-doorbell is one hardware company that's so far proving to be a winner – because it's built around Maslow's "Safety" stratum.

Unicorn's understanding of the "Physiological" needs of its target market drove the design of our product-service-operations matrix. Working up the pyramid, our extended offerings will meet our customer's demand for "Safety", creating the product/market foundation absolutely driven by consumer demand. Finally, we'll rely on Maslow's "Love", "Esteem" and "Self-actualization" (emotion) strata to guide our messaging (reasonable investment in focused advertising).

Am I smarter than the many failed hardware company founders and their enabling VCs? Check back in a few years for that answer. But as a frugal founder and student of startup history (including mine), I will say that if Unicorn fails, our epitaph won't list any of CB Insights' top 4 reasons.

Now, back to dialing for dollars – I've got a future Unicorn hardware startup to get funded.