Foundations of Entrepreneurship

Why Do Startups fail?

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RMSoEE

Lecture Note 4

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Concepts Covered:

- ❑ Real data on why startups fail.
- ❑ Data provide evidence that many of the failures could have been averted.
- ❑ Lack of planning, disregard to customers' needs, and obstinately refusing to learn from mistakes appear to be the overarching cause in most failures.
- ❑ Disregard to established knowledge also appears to be a dominant force behind many failures.
- ❑ Conclusion: There are some patterns of causes of failure. It is quite possible to avert failure with knowledge on how startups usually fail.

https://www.cbinsights.com/research/biggest-startup-failures/?utm_source=CB+Insights+Newsletter&utm_medium=email&utm_campaign=newsletter_general_sat_2022_08_06&utm_term=block-2&utm_content=research-public

Nokia, 2007 – Porter's 5 forces analysis

In 2007, 4 out of 10 phone across the world was Nokia

Nokia gained 80% market share.

Low

Threat of substitute

High power

Power over suppliers

Competitive rivalry

Absent

High power

Power over buyers

Barrier to entry to new entrants

High, Brand & Reliability

Nokia and Black Berry were unassailable leaders and nobody could predict their downfall.

reached 80% market share.

They lost entrepreneurial essence

People bought phone for features. But it changed.

Millions of apps were available for users to ..

Apple and Google transformed phones to entertainers.

Black Berry and Nokia did not understand.

Primary attribute of entrepreneurial essence is always remaining customer-focused and constantly innovating to meet evolving customers' needs, choices, and aspiration pre-empting the competitors. Success does not give complacency to entrepreneurs with entrepreneurial essence always keeping them busy understanding and building what their existing and potentials new customers would love. They quickly adapt to changes. They train and empower, shared vision, innovative, not averse to take calculated risks.

Creating Unfair Advantage

Asymmetric Business Model: an organization offering something free or at cost to attract more users and then use the data for profit or sell something else to the same users.

- Economics of complements: Printer – Cartridge
- You sell the printer at a loss, but make super profit selling cartridges.

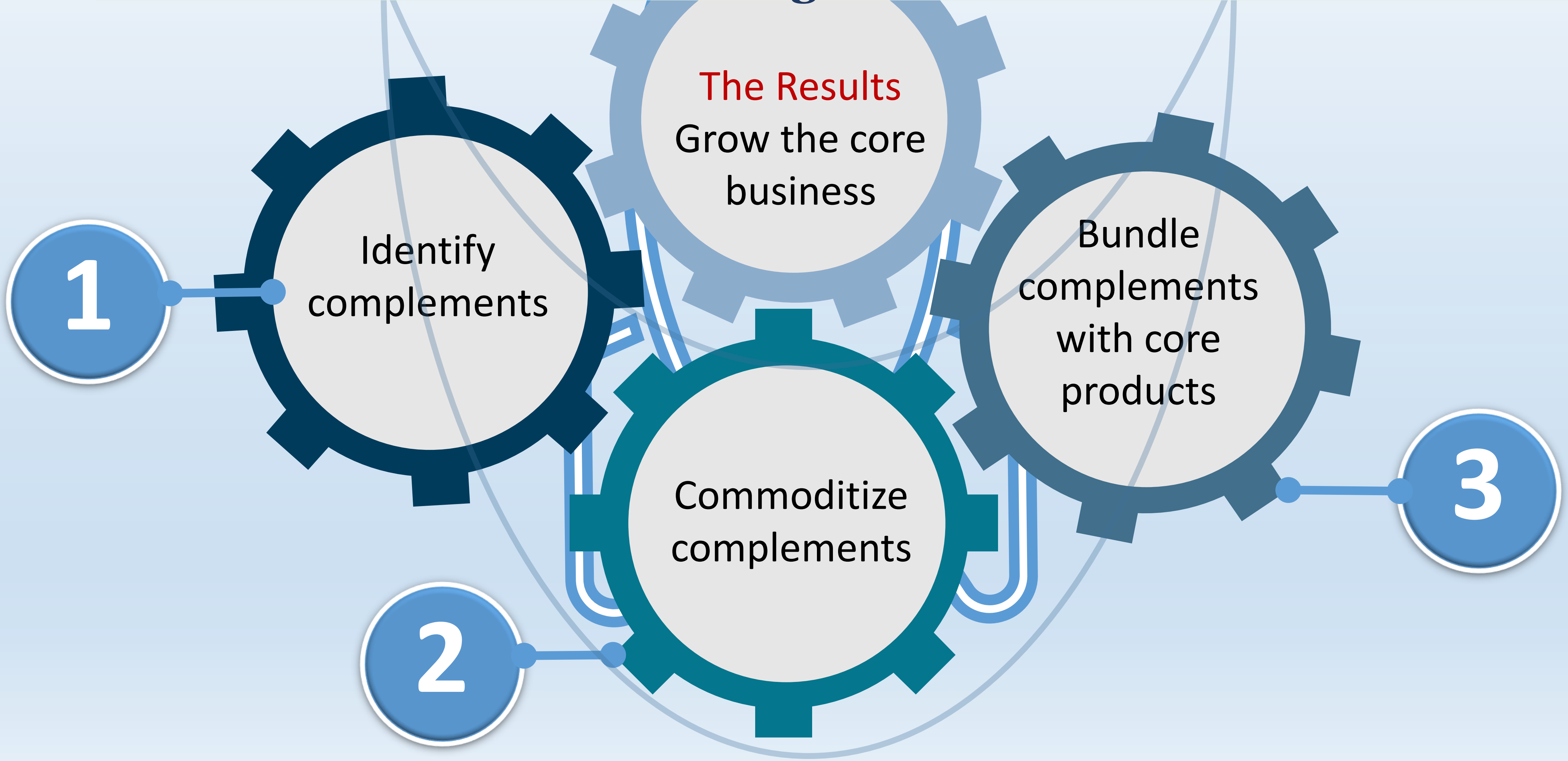
Apple makes it easy for software developers to make apps adding price competition among developers: So, people buy more of Apple’s products

Google’s Android OS is free for any hardware manufacturers (open-source). Google bundles its Playstore, its own user profiling services, and APIs. Every user with an android phone consumes google services. By commoditizing Android, google increases its advertisement revenue facilitating targeted advertisement.

Amazon makes and sells hardware such as Kindle fire and Ecoh devices at cost.

One cannot easily copy or buy such services to derive similar competitive advantages.

Asymmetric Business Model
How to Create Unfair Advantage
An alternative to vertical integration



- An asymmetric business model is a business strategy that uses unconventional approaches to gain a competitive edge.
- It's based on the idea of transferring value between industries, rather than generating immediate profits.

Some introductory discussion

- Causes of failure of enterprise include factors such as lack of foresight, poor strategic planning, shortage of capital, inadequate personnel, and lack of trained individuals.
- Other common factors include technology change, geopolitical forces, increased competition, unwillingness to change.
- Companies devalue their people as if they are merchandize. They put profit above people.
- Companies who value people, take care of their wellbeing & their families, greatly benefit. By doing so, you do good to you, our society, and the planet that sustains us.


Microsoft Corp
$413.76
↑413,660.00%
+413.66 MAX
Jan 13, 12:11:14 PM UTC-5 · USD · NASDAQ · Disclaimer
1D
5D
1M
6M
YTD
1Y
5Y
MAX
500
400
300
200
100
0
Satya Nadella became the CEO

What Should We Do to Take Care of Employees?

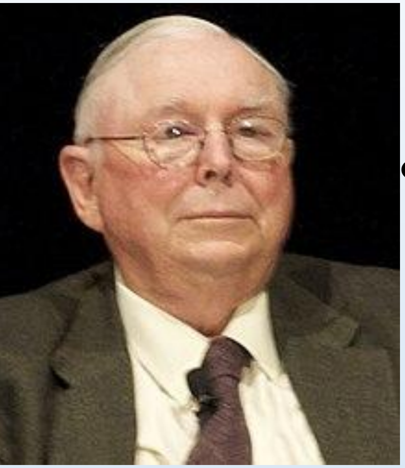
Bring humanity into your company by

- Understanding your people, know their problems, their capabilities, their talents and limitations. Share your vision with them. Let them know why the company exists.
- Hear them
- Establish strong relation
- Empower people
- Teach them how to deliver
- This can best be done by one-on-one communication

Revitalize

- Leaders at some of the top companies are increasingly utilizing practices such as meditation, yoga, stillness breaks for staff, and mindfulness training.
- These practices allow people to be more thoughtful and inquiring.
- We must have compassion for ourselves as leaders and take time for proper self-care, as well as providing for those who work throughout our company.

- **You CAN solve huge problems and make other people's lives better.**
- **You CAN turn your ideas into reality, and it's completely within your control.**
- **However, most people fail because they make mistakes they could have prevented.**
- **Once you're aware of those mistakes, you can pursue success by averting them. Preventing them will allow you to work on things that actually create value.**



- *"All I Want To Know Is Where I'm Going To Die So I'll Never Go There."* — Charlie Munger

Fail early, fail often, but always fail forward." — John C. Maxwell, Failing Forward: How to Make the Most of Your Mistakes

"If you're not failing, you're probably not really moving forward." — John C. Maxwell, Failing Forward: How to Make the Most of Your Mistakes

Causes of Failure of Startups

- You may read many post-mortems (some call them obituaries) on failed startups following the link below to understand what the founders attribute to their failures:
- https://www.cbinsights.com/research/startup-failure-post-mortem/
- **483 startup failure post-mortems – May 29, 2024**

"In the spirit of failure, we dug into the data on startup death and found that 70% of upstart tech companies fail — usually around 20 months after first raising financing (with average of around $1.3M in total funding closed)". – cbinsights.com

Byju’s

- **Comprehensive Learning Content:** Byju's provides comprehensive and interactive learning content across various subjects and grades. The platform covers a wide range of topics, making it suitable for students at different educational levels.
- **Effective Use of Technology:** Byju's leverages technology, including engaging videos, interactive quizzes, and personalized learning paths, to make the learning experience more effective and enjoyable.
- **Adaptive Learning Approach:** The platform uses an adaptive learning model, tailoring content to individual students based on their strengths and weaknesses. This personalized approach helps students learn at their own pace.
- **Appealing User Interface:** Byju's offers a user-friendly interface that is visually appealing and easy to navigate. The well-designed platform contributes to a positive user experience.
- **Experienced Educators and Experts:** Byju's learning modules are often developed and delivered by experienced educators and subject matter experts. This adds credibility to the content and ensures a high standard of education.
- **Continuous Updates and Innovations:** Byju's continually updates its content to align with curriculum changes and educational trends. The company also introduces innovative features and teaching methodologies to enhance the learning experience.
- **Engagement Beyond Academics:** Byju's goes beyond traditional academic subjects, offering courses on various competitive exams, skill development, and extracurricular topics, providing a holistic approach to education.
- **Global Presence:** Byju's has expanded its reach beyond India, making it a global player in the ed-tech industry. This international presence allows the platform to cater to a diverse audience.

Byju’s

- The perfect company poised to emerge as an Indian multinational revolutionizing the way students learn.

Acquired

- Whitehat junior – $300 millions
- Aakash – $1000 millions
- OSMO - $120 millions
- EPIC - $500 millions

And many more

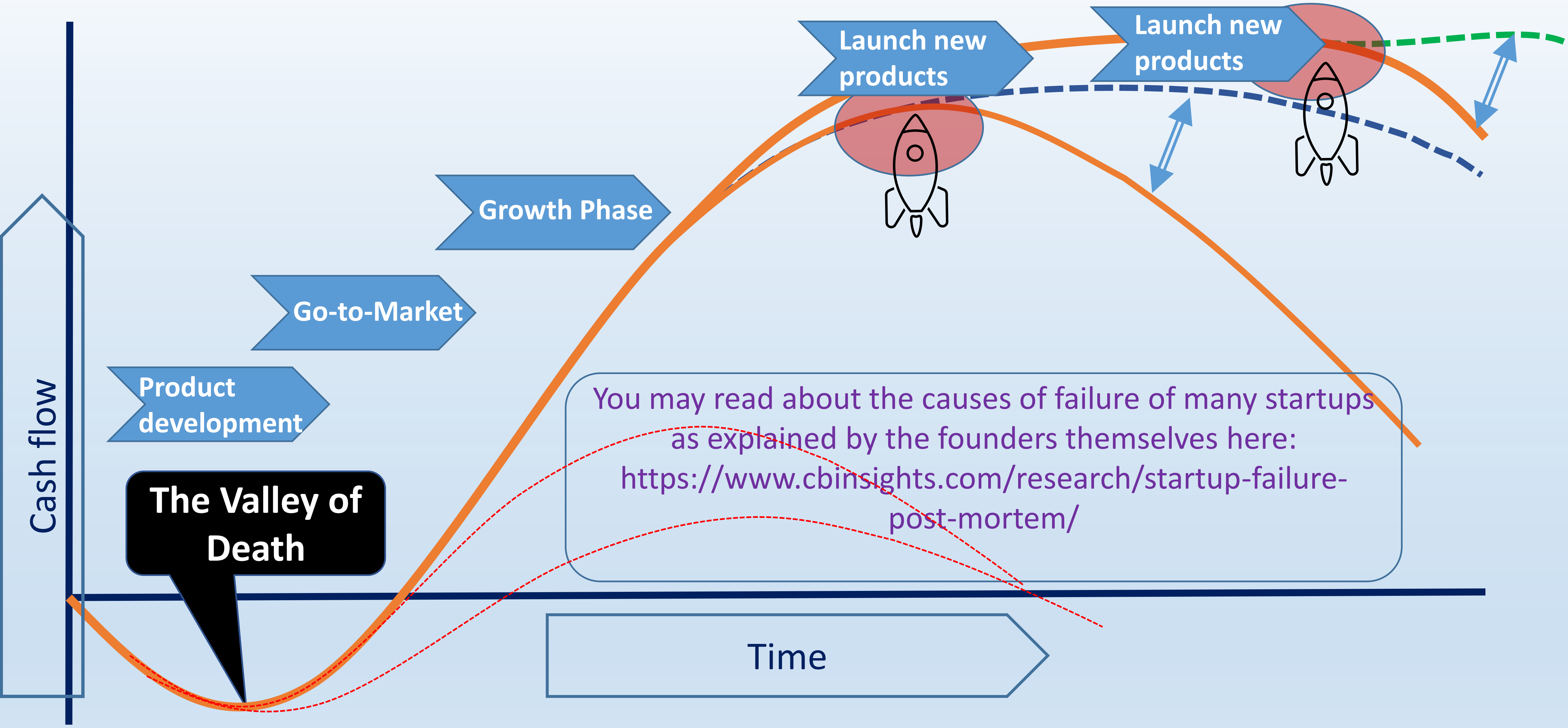
- From 25 students in 2011 to >crore students by 2021.
- Shahrukh Khan, Birat Kohli, and Messi were brand ambassador. 150 million users.

Byju’s

- In 2021, revenue ₹3,569 cr while loss reached ₹4,588 cr from ₹250 cr previous year.
- US banks and BCCI filed lawsuits.
- Investors (board members) and auditor resigned.
- Selling 25% shares received $400 million.
- Foreign exchange violation fine: ₹9,000 cr.
- Accounts fudged. Three year’s revenue used to be shown as one year’s revenue.
- BYJU'S has raised a total funding of $5.08 Bn over 28 rounds. It's first funding round was on Mar 30, 2013. It's latest funding round was a Conventional Debt round on May 12, 2023 for $250M.
- BYJU'S is backed by blue-chip investors including the Chan-Zuckerberg Initiative, Sequoia Capital, Bond Capital, Silver Lake, BlackRock, Sands Capital.

Why Did Byju's Fail?

- **Unethical & dishonest business practices (Wolf Gupta)**
  - Byju's employed a strategy of belittling students in the presence of parents, aiming to demonstrate that their courses are essential for enhancing academic performance.
- **Financial mismanagement.**
- **Deducted tax from salary of employees but did not deposit to Govt.**
- **Aggressive marketing.**
- **Obtained loan documents signed surreptitiously or covertly, without the customers' knowledge.**
- **Failed to file financial report on time.**



You may read about the causes of failure of many startups as explained by the founders themselves here: https://www.cbinsights.com/research/startup-failure-post-mortem/

The Valley of Death

- The "valley of death" is referred to the phase of startups when they fail to either generate sufficient cash flow or attract fund from external sources such as investors to cover the negative cash flow occurring during the early years (say during the first to third years).
- The majority of startups (some study places it at 90%) fail at this phase.
- Very few startup businesses generate positive cash flow (net of cash inflow and outflow) during the early years.
- On the other hand, many fail to come up with a validated prototype or proven business model that the investor would feel confident about.
  The investors usually prefer a somewhat proven business model.

Adventuresome, usually highly educated, inquisitive, innovative mind, risk takers.

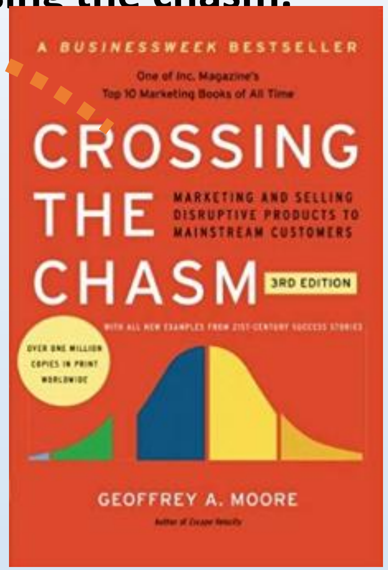
Leaders in respective segment, educated and knowledgeable, ok with risk.

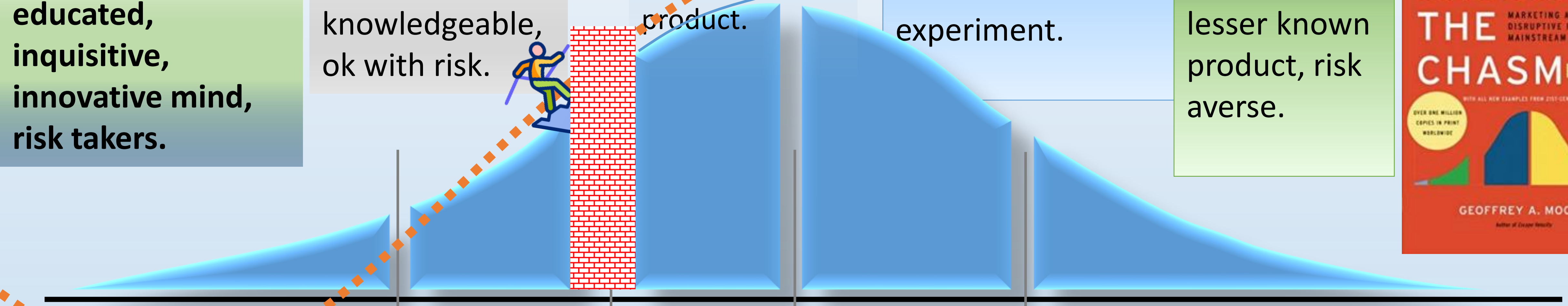
Socially active, take calculated risk, need a lot of validation to trust a new product.

Look for validation and revalidation, concerned for value for money. Averse to new experiment.

Complacent, averse to try lesser known product, risk averse.

Geofrey Moore: Crossing the chasm.





Innovator 2.5%	Early Adopters 13.5%	Early Majority 34%	Late Majority 34%	Laggards 16%

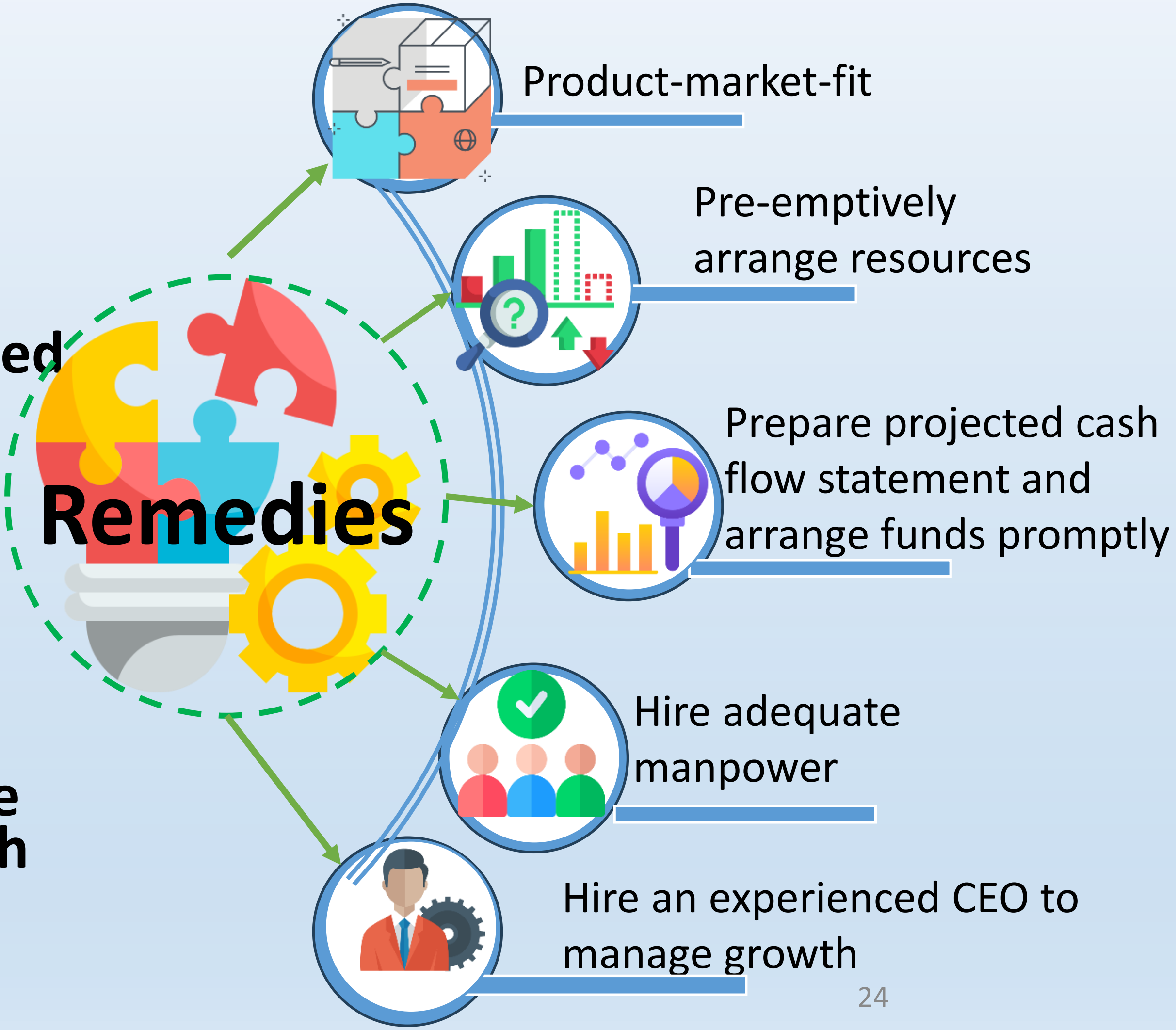
Product Adoption Curve
Types of consumers from new product adoption perspective

Why does CHASM manifest?

- There is a **considerable difference** between the needs, preferences, risk appetites, and the level of accommodation/acceptability of customers of early adopters and early majority types.
- Early adopters are interested to experiment with and try new technologies, are fine with an early-stage product, forgive small defects in the products, and do not mind about lack of aesthetic perfection, the kind of a beta model.
- Many startups lack the preparedness to handle the hyper-growth that characterizes the transition from early adopters to the early majority.
- Many are not prepared for the higher scale of logistics, manpower, inputs, storage, business process management, marketing personnel, customer service personnel, recovering the sales proceeds, and many more to handle the increased number of customers.
- A professional CEO with experience in managing a growth venture is essential for this phase.
- **Lack of planning, particularly for funds.**

Remedies

- **Before a company begins to acquire customers from among the early majority, their product should gain perfection.**
- **Make early plans and arrange all required resources.**
- **Prepare clear projected cash flow statements to pre-empt funds requirements.**
- **Hire manpower pre-empting the requirement to handle growth.**
- **Hire a professional CEO with experience in taking a company through the growth phase.**



Of his many failed experiments, Thomas Edison once said:

"I have learned fifty thousand ways it cannot be done and therefore I am fifty thousand times nearer the final successful experiment."

We neither have the resources to try fifty thousand times to reach to success nor we have the time, tenacity, or guts.

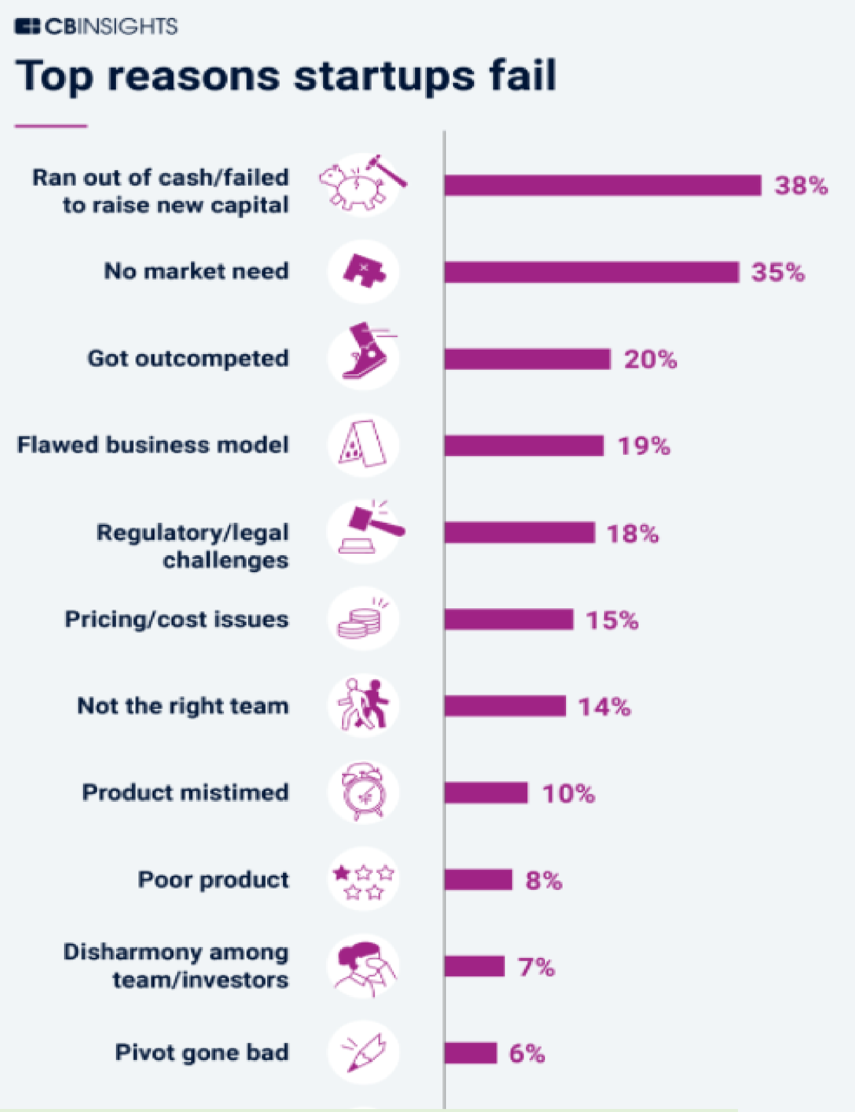
But we surely have access to information on why many ventures failed. These are analogous to experiments done by some people several thousand times and we learn from their failures, what tends to go wrong and where should we focus.

- **Startups fail even after raising significant amount of fund and sales.**
- **Studies on recent incidences show that 70% of the start-up failed after raising about ₹10 crore of funds and existing for 20 months.**
- **The statistics on consumer hardware startups are particularly brutal with 97% of the seed or crowdfunded startups eventually dying or not gaining traction.**

Should these Data Intimidate Aspiring Entrepreneurs?

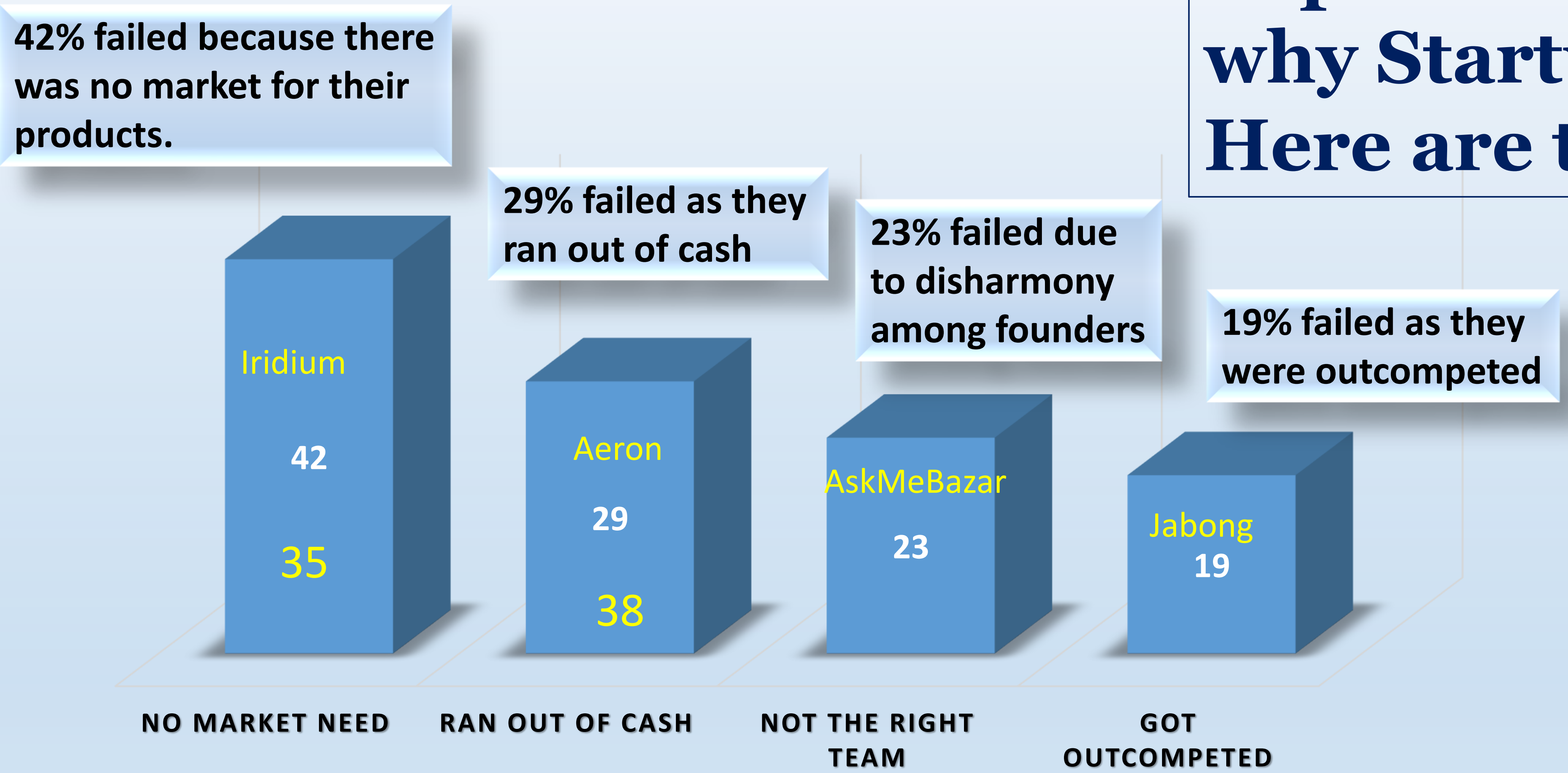
- Some data are misrepresented. **Acquisitions, mergers, and sale!**
- For example, Tapzo was acquired by Amazon Pay for a valuation between $40-45 Mn. However, most databases show Tapzo as failed. The reason: the valuation during acquisition is almost half that of the last funding. [Tapzo raised a total of $29.8 Mn funding.]
- Ofo shutting down its dockless bike renting service in India as part of company's strategy to scale down its operations in international markets.
- Once you know why majority of the startups fail you would tend to think that a good percentage of the failures could be averted by preemptive course corrections.
- eBay shuts down its business in India for strategic reasons.

- Almost always, more than one reasons are responsible for business failure and the real reasons are hard to uncover.
- Through extensive research on 101 failed startups www.cbinsights.com has documented the reasons for their failure.
- They studied 390 failed startups and published data in Dec 2021/22
- A glimpse on the list would give valuable insights on the things that should deserve attention for preemptive actions.
- It would also help to understand early symptoms of chronic ills and take decision to take corrective actions, or pivot and avoid further loss.



Source: https://www.cbinsights.com/research/startup-failure-reasons-top/

Top 20 Reasons why Startups Fail: Here are the top 4



Starting in 1980, Getit Infoservices acquired Mebelkart, a furniture marketplace, BestAtLowest, an online grocery marketplace, AskMePay, payment divisions, & AskMeGroceries, groceries divisions. The company folded up in 2016 due to disharmony among founders & investors, corporate governance, and dishonesty

The AskMe group of companies

Starting in 1980, Getit Infoservices, owned Infomedia Yellow Pages and AskMe) acquired Mebelkart, a furniture marketplace, BestAtLowest (for $10 million), an online grocery marketplace, AskMePay, payment divisions, & AskMeGroceries, groceries divisions. The company folded up in 2016 due to disharmony among founders & investors, corporate governance, and dishonesty.
AskMe Group's marketplace model started in 2012 as Askmebazaar.
Had celebrities like **Ranbir Kapoor, Kangna Ranaut, and Farhan Akhtar** endorsing the brand. They had invested $20 million in online furniture player Mebelkart in August 2015.
Astro Entertainment Networks Limited (AENL) of Malaysian billionaire T. Ananda Krishnan's held 97% of the company
Reference: The $300 million AskMe disaster in India

1. Lack of focus

2. Needless acquisitions

3. Weak technology

4. Inconsistent strategy

5. Cash crunch (turnover doubled from 23 to 51 cr. but cash loss increased from 53 to 300 cr

6. Single investor

- One of the two main causes for failure is that they create a product that customers don't buy.
- The reasons may be diverse. It may not meet their needs, the product may be ahead of time or lack latest features, the price may be higher, the product may fail to excite.
- This issue of customers' likability is popularly referred to as product-market-fit. It is the degree to which a product satisfies customers' need, aspiration, liking vis-à-vis that of the competitors.
- Maybe there were already better products out there. Or maybe the market just wasn't ready for it. Or, maybe, the world just didn't need what they were putting out there.
- Lesson learned: Talk to people before you build anything!

Example

- The Iridium communications service or Iridium SSC was laun on November 1, 1998 at a capital investment of US$6 billion.
- Motorola was the technology provider.
- What the founder assumed/ the hypothesis?
  - If communication made possible from anywhere to anywhere, people have every reason to lap it up.

Image courtesy: http://i-marineapps.blogspot.com

Facts

Nine months later, on August 13, 1999, filed for bankruptcy.

- ❑ **Why?**

- **Every single call must be routed through all satellites. Required entire constellation of 66 active satellites to make any call.**
- **The cost of service was prohibitively high for most users.**
- **Indoor reception was poor, if at all possible.**
- **The handheld device was bulky.**
- **Calls were expensive.**
- **The company was sold for US$35 million after an investment of more than $6000 million.**

Why did Iridium fail?

- **The company lacked idea of the cost of the service and affordability.**
- **Customers were not ready to pay the price of the product and service.**
- **The products did not meet requirements of customers.**
- **The technology was partially ahead of time and partially lagging.**
- **Ancillary industries were not well developed.**

https://medium.com/illumination-curated/legendary-investor-bill-gross-says-timing-is-the-single-biggest-reason-why-startups-succeed-5706d80992ca#:~:text=What%20He%20Found%20Matters%20Most%20In%20Startup%20Success&text=After%20compiling%20all%20of%20his,Execution%20came%20out%20at%2032%25.

Irridium was ahead of time in some respects!!

- **OneWeb**
- Indian telecom giant Bharti Enterprises and the UK government have jointly purchased at auction the bankrupt satellite operator OneWeb.
- The UK government and Bharti Global invested US$500 million each.
- **SpaceX Starlink**
- OneWeb is competing with Elon Musk's SpaceX Starlink project.
- **Kuiper**
- Jeff Bezos's Amazon-linked Project Kuiper, as well as from incumbents such as Inmarsat, Intelsat SA and Eutelsat Communications SA.

- **People think differently, so validate your proposition early and continuously to ensure a perfect customer-product fit without adding unwanted features.**
- **Focusing solely on building a product without customer validation is a critical mistake.**
- **Entrepreneurs often fail to distinguish between 'must-have' and 'nice-to-have' features, wasting time and resources on things customers don't value.**
- **"Life's too short to build something nobody wants." - Ash Maurya**

- **What we usually see is:**
- **A founder gets an idea >> builds the solution >>tries to sell it >> nobody buys the solution >> the founder runs out of money >> the startup dies.**
- **Your goal should be to solve a meaningful problem of target customers in a competitive way.**
- **Get customers' feedback right at the beginning and never lose focus on the changing needs of the customers.**

Cause for Failure of a Large Number of Startups

Running Out of Cash

Running Out of Cash (29% to 38%)

- This may results from
  - Poor financial planning,
  - Failure to anticipate negative cash flow and arrange funds in advance,
  - Not growing fast enough and
  - Losing investor appeal.
- **Just Buy Live:** an Indian B2C e-commerce company, raised $120 Mn (INR 900 Cr) of funding but failed. The causes of their failure: an unscalable business model and negative cash flow. A replica of Alibaba and Indiamart, which were hugely successful.

Example: Ran Out of Cash

- Drone startup Airware shuts down after burning $118M
- Here is what the founder wrote in obituary

Obituary: "History has taught us how hard it can be to call the timing of a market transition. We have seen this play out first hand in the commercial drone marketplace. We were the pioneers in this market and one of the first to see the power drones could have in the commercial sector. Unfortunately, the market took longer to mature than we expected. As we worked through the various required pivots to position ourselves for long term success, we ran out of financial runway. As a result, it is with a heavy heart that we notified our team, customers, and partners that we will wind down the business."

- "At age 27, I started a business using money in my savings account," Lyneir Richardson CEO of Chicago TREND and Executive Director of the Center for Urban Entrepreneurship and Economic Development at Rutgers University Business School.
- "My business grew rapidly from $600,000 in revenue to over $7 million. I was recognized by the U.S. Small Business Administration as a Young Entrepreneur of the Year.
- "But I had three major problems. First, I had a low profit margin on the product that I was selling. Second, I had a lot of payroll costs. Third, there was a long lag time between sales and no consistent recurring revenue. I now know that these are classic symptoms of a company with poor cash flow. The saying is that 'Cash is King,' but in my view, the saying should be 'Cash Flow is King.' Ultimately, I had to sell the assets of my company at a discount, and I went out of business."
- You can read the story at https://www.startups.co/articles/why-do-startups-fail

Another obituary: Running Out of Cash

Running out of Money: Lack of Knowledge on Financial Accounting

- **Aerion went down in spite of order book position of US$11.2 B and $1 B investment in product development. Everything was in place.**
- **There was no dearth of money either.**
- **Only one reason is attributed to the failure of the business: running out of funds!**
- **Why? Because they could not foresee the event and did not try early enough to raise more funds.**

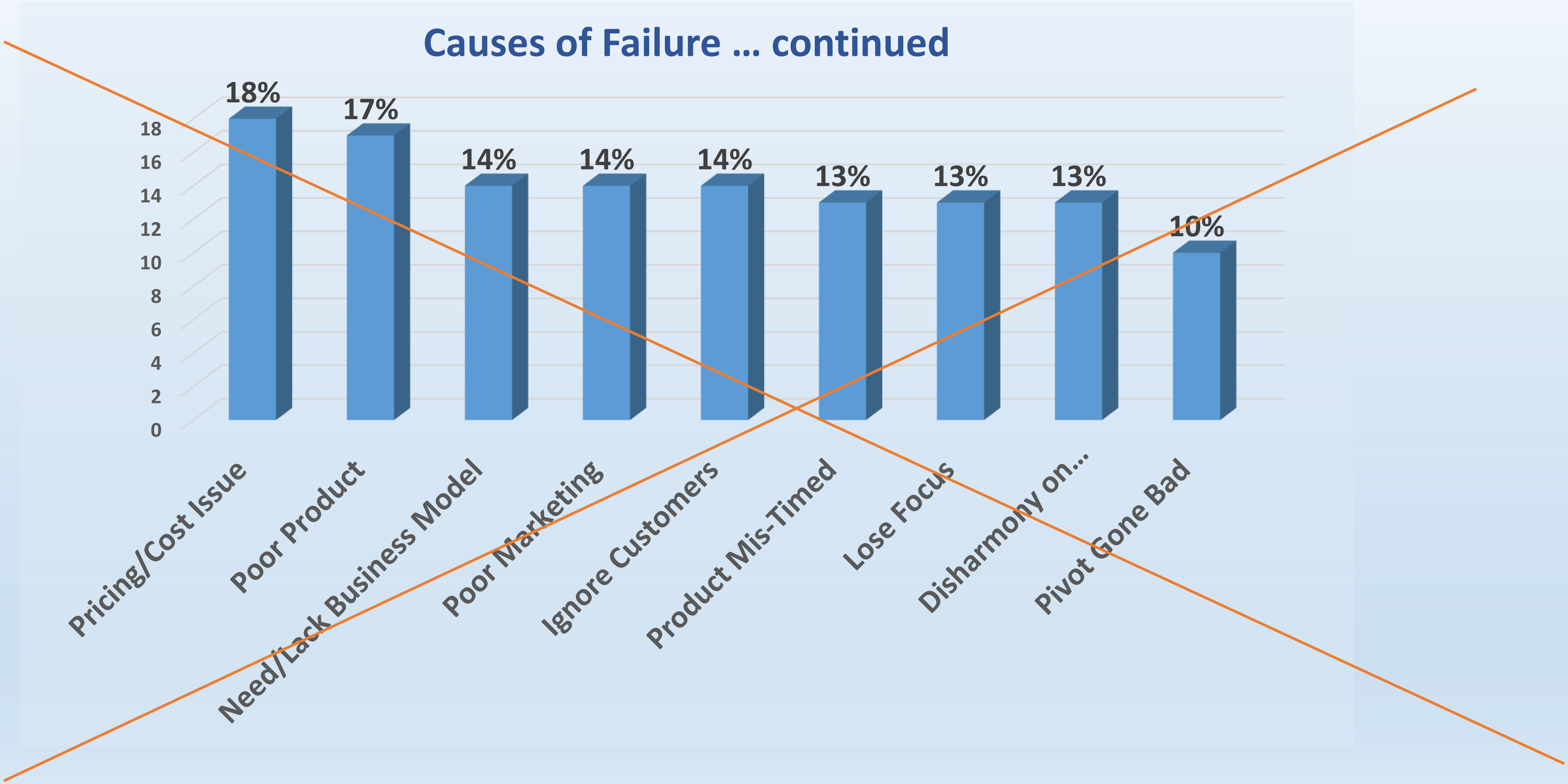
"I will never be able to forgive myself for not taking action sooner." – Founder in obituary

Ezytruk: Running out of cash and failed to raise more funds

- Ezytruk - Trucks and logistics platform raised fund of ₹1.00 crore. (Rivigo was a crushing success)
- Run out of cash and failed to raise more funds. Shut down.

Outcompeted: Monkeybox

- **Monkeybox,** the Blume Ventures-backed foodtech startup shut down in 2018 even after taking over the food delivery company ‘75 In A Box’ and juice delivery startup ‘RawKing’.
- **Monkeybox** misjudged the market and prevalent competition and had failed to garner adequate revenue to stay afloat amid fierce competition.


Causes of Failure … continued
18%
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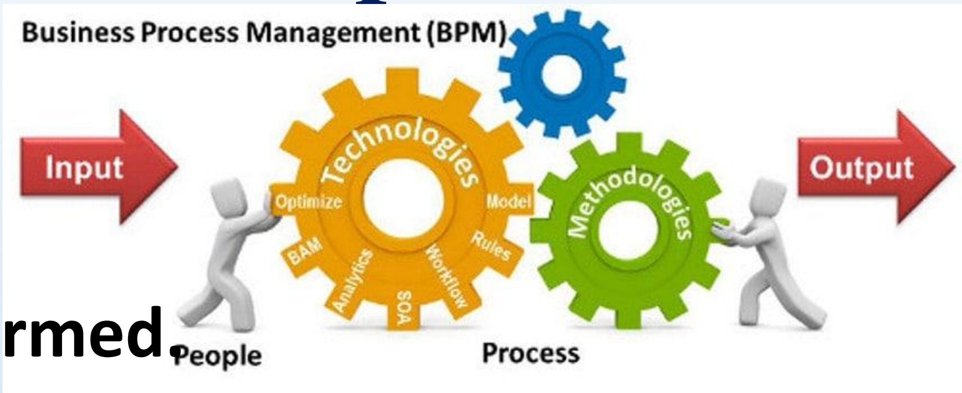
Pricing/Cost Issue
Poor Product
Need/Lack Business Model
Poor Marketing
Ignore Customers
Product Mis-Timed
Lose Focus
Disharmony on…
Pivot Gone Bad

Reasons not Included in the Above List

- Ignoring the business process - wonderful idea, great product, great technical team with complementary skills may not guarantee success.
- One strong pillar may not provide stability to a structure but one weak pillar may make it unstable. Entrepreneurs cannot afford to neglect anything.
- There is a trend that the CEO thinks that my job is to lead, the CMO thinks that my job is to market and lead, CTO technology guy thinks that my job is to code. But whose job is business process?
- If business process is neglected it may be fatal!
  Zilingo by Ankiti

Business Process Management is Indispensable component for a business



- It allows business and technology to better understand implications of how work is performed.
- It visually identifies problems with processes.
- It allows the business to define improved business processes and test them prior to implementation.
- BPM provides value throughout an organization by:
  - Using process-enabled achievement of strategic objectives
  - Accelerating time to market
  - Delivering improvements in cost, productivity, timeliness and quality.
  - Improving customer service levels and increasing customer satisfaction

BPM provides value throughout an organization by: Continued from the previous slide

- Transferring knowledge to ensure that customer teams achieve the necessary competence and autonomy to maintain and develop future capabilities
- Simplifying business processes to drive effectiveness, efficiencies and agility
- Managing risks and meeting compliance regulations
- Providing greater visibility into your organizational performance
- Introducing new process designs faster
- Reducing costs and improving revenue streams

Being a One-Person Team

- “Individuals don’t build great companies, teams do.”-Mark Suster.

Y-Combinator President, Co-founder & CEO of OpenAI: Sam Altman says:

- Twenty most valuable companies have at least two co-founders.
- He also suggests that startups with 2 – 3 co-founders work best.

The solution

- Ideally, you should have a combination of people that covers the startup triangle: designer, engineer, and marketer.
  - Because, if you're with good people from the start, making something your customers actually want becomes <u>100X easier</u>.
  - The long hours become way more bearable.
  - You can pull each other through the lows and celebrate the highs.
  - Your perspective changes because now you're with a team, working on something you believe in, with people you can learn a lot from. And that by itself is worthwhile.

Premature scaling

- "Premature scaling is putting the cart before the proverbial horse. The more a company grows, the further away from profitability it becomes." -Michael A. Jackson

The problem

- This one is tricky, because it seems you're doing everything right. You're scaling, you're hiring, you're funded, you're growing.
- However, if they are not in order the impact is huge. According to the Startup Genome Project, up to 70% of startups scale up too early. They say that it affects performance of up to 90% of failed startups.
- Premature scaling basically means too much, too soon.

The solution

- **This comes down to a couple of stages with different focus.**
- **First:** problem-solution fit. a) find a problem that is big enough, b) for enough people and c) where they will pay you to solve their problems in whatever way.
- **Second:** product-market fit. Creating an in-demand product that services a large enough market for your startup to grow. This means you test, validate and determine the core features, and use product feedback to build next version.
- **Third:** channel fit. The third phase is about lowering acquisition costs and increasing revenue so you can reach profit. This means you optimize your conversion funnel and find ways to retain more customers.
- **Once you know that your cost to acquire a user will be lower than their lifetime value, you can step on the gas and scale up.**

Lack of focus

"Lack of direction, not lack of time, is the problem. We all have twenty-four hour days."-Zig Ziglar

If you find yourself doing one of the following things without knowing they're going to move the needle, STOP!

- "Coffees," whether that's with potential partners, investors or acquirers.
- Unnecessary networking.
- Recruiting a board of advisors.
- Doing partnerships without proof of extra revenue.
- Spending time on PR and social media before knowing you've got the right product for the right customer.
- Going to conferences.

- Some companies over-promise and under-deliver???
- You only can fool some people some of the times. Sooner or later, you surely get caught.

- **As business grows, founders need to find people to do things so that they (founders) can do founders' jobs.**
- **Train people and empower them with independent responsibilities.**
- **Problems crop up such as dissatisfied customers or suppliers, bankers etc. and you need managers to deal with them.**

- **"Nothing fails like success" is often attributed to the American writer and philosopher Kenneth Burke.**
- ***Charles Darwin's theory of natural selection: "It is not the strongest of the species that survives, nor the most intelligent; it is the one most responsive to change."***

Thank You

Syllabus

Entrepreneur, Managers, and Technicians

Each of us is an entrepreneur, a manager, and a technician with varying degree of them - Gerber in E-Myth .

Technician, manager, and entrepreneur personalities are all critically important for business success. But very few individuals can assume all three of them. Even if anyone can, it is difficult to function all three roles simultaneously.

We need to realistically assess how much we are entrepreneurs, managers and technicians so that we can make a balanced team with complimentary skills.

Entrepreneur, Managers, and Technicians

Technicians are doers and would think that business will not run without them doing. During early stage, the technician thrive but when it comes to go-to-market phase, it does not suffice. You need entrepreneurial vision.

As business starts growing, it needs managers for myriads of things such as logistics, finance, customer, brand, legal and many more business process management expertise.

"Failure is the sibling of success: you can tap failure as a strategic resource" **- Madanmohan Rao [See reference section]**

- **Fail Fast, Fail Early, and Fail Forward.**
- **With a broader view now about causes of failure and how to avert them:**

  Do not let failure statistics intimidate you.
- **Respect failure, anticipate failure, prepare contingency plans, simulate and rehearse, turn failure to a resource**

- **A brilliant idea, passion and myriads other things define success or failure?**
- **One fatal mistake: understanding the technology is the same as understanding the business. A corollary to this is - building a new generation product guarantees success of a business. This has been proven wrong several times over.**
- **So, people rightly start business in the domain they are expert in; but they tend to neglect dozens of other things.**
- **They may be good technicians and not good managers or not good entrepreneurs. Michael E. Gerber, the author of E-Myth, calls it *entrepreneurial Seizure*.**

1. Founders are driven by impact, resulting in passion and commitment
2. Commitment to stay the course and stick with a chosen path
3. Willingness to adjust, but not constantly adjusting
4. Patience and persistence due to the timing mismatch of expectations and reality
5. Willingness to observe, listen and learn
6. Develop the right mentoring relationships
7. Leadership with general and domain specific business knowledge
8. Implementing "Lean Startup" principles: Raising just enough money in a funding round to hit the next set of key milestones
9. Balance of technical and business knowledge, with necessary technical expertise in product development

Three characters in an individual [Definition in the next slide]

Business Process Management (BPM) Is a Continuous Process

1) Brings about clarity on strategic direction,
2) alignment of the firm's resources, and
3) increases discipline in daily operations.

- BPM is an enterprise-wide, structured approach to providing the products and services that your customer's value most.
- It is grounded in the premise that you must take a process view in order to understand the products and services your customers value most.
- An understanding of the key business processes helps to meet key customer needs and you gradually realize the gap between customer expectations and your capability to perform.

- **BPM is a process approach to managing an organization.**
- **Business process management (BPM), as the phrase indicates, is a systematic (better even, a systems) approach to various functions of a business.**
- **BPM ensures smooth and seamless transition from one step in a business to another almost autonomously and avoid firefighting.**
- **For all events or eventualities, expected or unexpected, someone is always there and ready to handle.**
- **Paul Harmon of Business Process Trends defines BPM as, "a management discipline focused on improving corporate performance by managing a company's business processes."**

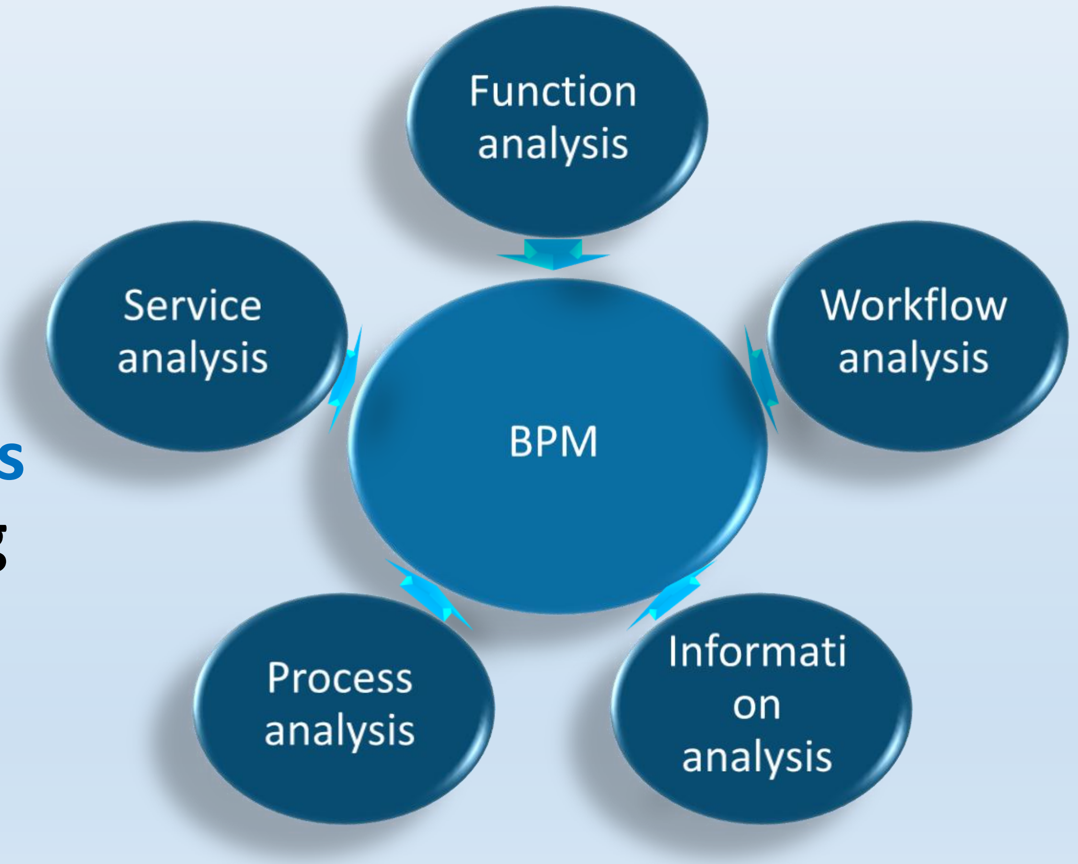
More About BPM

- BPM is a holistic management approach that aims to align business processes with changing business needs by continuously focusing on optimizing them.
- In complex business environments, BPM offers a standard and scalable solution for managing processes.
- These solutions include person-to-person work steps, system-to-system communications, or combinations of both.
- It integrates various independent disciplines of process modeling, process simulation, workflow, process execution, process monitoring, Enterprise Architecture, Lean, and Six Sigma into one unified standard to manage change.

BPM

BPM is a comprehensive strategies that facilitates organizations to design, model, deploy, and efficiently manage business processes to respond changing market dynamics.

It generates actionable business intelligence in real time helping organizations to rapidly respond to emerging changes.



Another Way of Looking at Failure

- **Failure may be due to mistakes/errors, carelessness, accidents, ignorance, hypothesis going wrong.**
- **So, why to worry too much about failure?**

Major reasons why Indian startups fail: Yourstory.com has identified 7 reasons behind failure of 81% of the startups.

1. Lack of innovation and original business ideas.
2. Lack of Vision
3. Lack of Market Understanding
4. Poor Competency
5. Poor Execution
6. Excessive Focus on Weaknesses
7. Every Founder Trying to be the CEO
8. Lack of Attention to Meritocracy

- https://yourstory.com/2018/07/7-major-reasons-indian-startup-failure?utm_pageloadtype=scroll

- **Pepper Tap**
- The company was delivering groceries in two hours. Raised US$ 51.2 M, but failed because of bad business model (zero inventory, high customer acquisition cost, untenable discount – at times, 70%) and folded in 2016. **Zepto** run the same business model, promises to deliver in ten minutes, and have gained valuation of more than $900 M in about nine months. Difference? Execution. Read the business model of both the companies to learn the difference of the two business models.
- Most of the successful entrepreneurs believe that the progress you are likely to make is worth the pain of failures because you will learn from every failure to not commit the same ever again.

Causes of Failure of Indian Startups

- A study by the IBM Institute for Business Value and Oxford Economics found that 90% of Indian startups fail within the first five years.
- And the most common reason for failure is lack of innovation.
- VCs (77%) believe that Indian startups lack new technologies or unique business models.
- Other major reasons are lack of skilled workforce, want of adequate & timely funding, inadequate formal mentoring and poor business ethics.

India Lacks Innovation

- India doesn't have meta-level startups such as Google, Facebook or Twitter.
- China, however, built its own Google named Baidu and Alibaba displaced Amazon.
- "Since 2015, as many as 1,503 startups have closed down, the main reason being replication of Western business models, and not lack of subsequent funding from the investors," says Rishabh Lawania, founder of Xeler8
- India filed 1,423 international patents in 2015-16, while Japan filed 44,235, China 29,846 and South Korea 14,626.

Lack of Vision

- Creation of a large percentage of ventures are driven by the passion to start a startup without a compelling vision.
- Shared vision
  - synchronizes all members in a common thread of thought and they pursue the same aspiration.
  - The majority of the conflicts are avoided.
  - Unique synergies prevail in all actions.
  - There would be less stress and stress would be bearable.

Lack of Market Understanding

- This is intuitive. Many startups teams are made of close friends and complementarity of skills may not always be the central consideration.
- Most technology founders are besotted with the novelty of the solutions.
- Many of them fail to focus on the impact on the customers' pain, competitive advantages, and customers' readiness to buy.

Poor Competency or Lack of Willingness to Hire Professionals (Founder's Dilemma)

- Founders' unwillingness to acknowledge limitations.
- Successful founder-CEOs are not non-existent, but they are rare breed.
- Less than 25% of founders led the IPO as CEO. Rest hired professionals to lead their companies to IPO as evidences Noam Wasserman – the author of "Founders' Dilemma" .
- Many founders think only they can lead the company. The fact is that CEO jobs need a lot of experience and networking.

Poor Competency or Lack of Willingness to Hire Professionals (Founder's Dilemma)

It is important for founders to realize that their financial resources, ability to inspire people, and passion aren't enough to enable their ventures to capitalize fully on the opportunities before them.

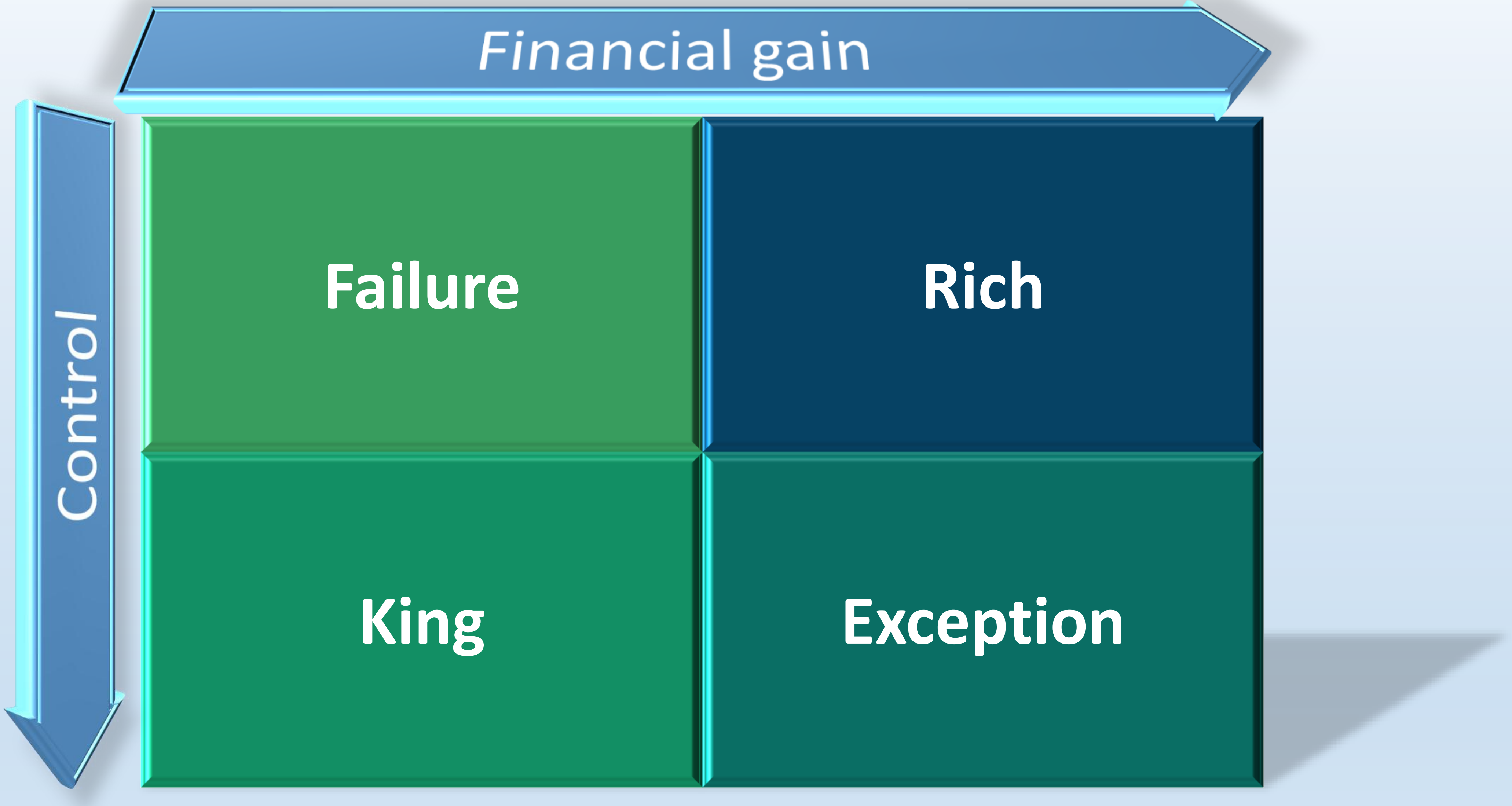
Those who acknowledge their limitation and quickly bring the right people on board, greatly increase the odds of success.

Early Success or Failure – Venture Needs Professionals

- Whether founders succeed in taking the venture up to developing the product and acquiring early customers, or they fail at some stage, either way, the venture needs experienced CEOs to lead.
- Success makes founders less qualified to lead the company since managing the growth phase requires more experience.
- Most founders who dilute equity to attract adequate investment and relinquish CEO position to professionals create greater values than ones who prefers to control.

Mark Zuckerberg on Hiring

- Mark Zuckerberg hired professionals early on.
- Zuc says that leadership is less about the skills outlined on your resume and more about your **character**.
- Incredible leaders are **respectful** and they demonstrate **integrity**.
- **They think beyond themselves and make smart and thoughtful decisions that are best for the venture.**
- **They clearly understand what they're best at and delegate the rest to more capable people.**
- They're passionate about what they're working on, and they let that shine through in everything they do. Charles Ranlett Flint


Financial gain
Control
Failure
Rich
King
Exception

Poor Execution

- **Great ideas are a dime a dozen. It's the actual execution that makes the difference.** (Molly St. Louis https://www.inc.com)
- **Strategy formulation & execution to create superior customer values, BPM, manpower planning and hiring, revenue model, marketing management, customers acquisition, customers retaining, brand building, managing growth, constant innovation to remain ahead of competition are all part of execution.**

What Can be Done?

- Define clear objectives, goals, individual success metrics and accountability.
- Let everyone understand the big picture, provide with unfettered access to the plans and individual's roles and implications of their actions.
- Seamless communication and collaboration among all members.
- Support creativity.

Market Problem

- Lack of product-market-fit
- Founders need to focus more on creating value for the target customers than building cutting-edge products.
- Else customer acquisition cost may be higher than life time (roughly couple of years) value of a customer – recipe for disaster.
- Making (refining) change in products at the early stage is easy and more economic than doing it later.
- Understand attractive market structure.

Meritocracy or the Lack of It

- **The most important asset of a startup is its human resource.**
- **Quality of the talent will make or break the enterprise.**
- **Build a second line of talent for exigencies.**
- **There must be no compromise on meritocracy.**
- **The agenda is to build a business and not really to create jobs.**
- **The best people doing the right tasks is the recipe for success.**
- **Talent must be timely rewarded based on a well-laid appraisal mechanism, be empowered, and put on a career growth path so that their personal aspirations align with those of the company.**

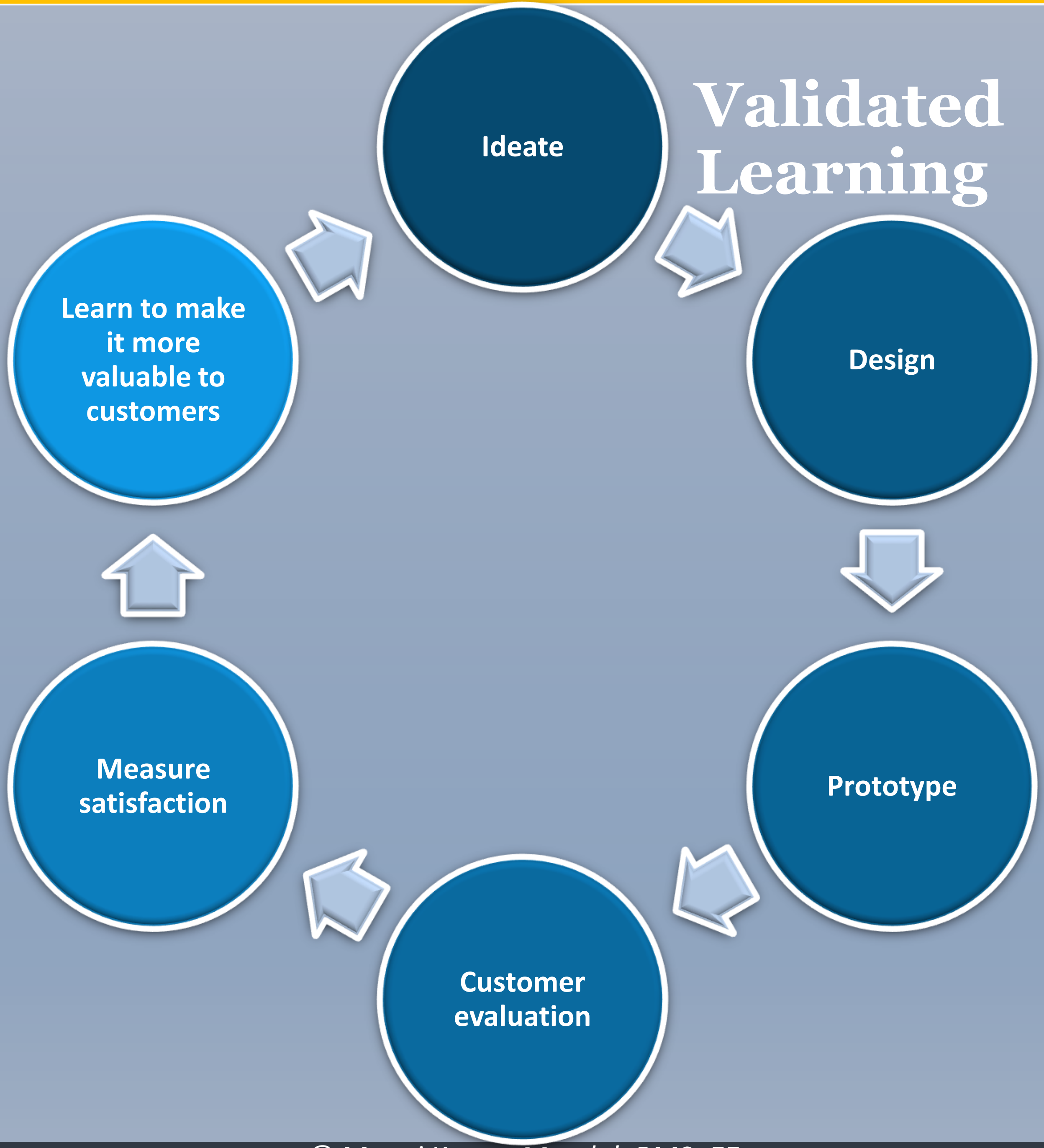
Inability to Raise Capital in Time and Ignoring Cash Burn

- The number of rejection in fund raising initiatives will surprise all founders.
- Many founders start the process too late, approach the wrong investors, and fail to make a compelling investment case.
- Make a medium term projection of activities, estimate cash flow and know when you need the fund. Plan at least six months before you want money to hit your account.
- Respect each rupee and do not be besotted with millions.

Not Following the Validated Learning Process of Product Development

- Many founders refrain from receiving feedback from actual users for many reasons.
- They end up developing something that nobody want, they pivot too late, burn lot of resources, and demoralize their team.
- Early feedback is recipe for success and failure is usually fatal.
- Build a prototype with key features at minimum possible expenses that helps customers in meaningful evaluation and use feedback to refine the product. You should repeat this learning loop until potential customers demand your product.

Validated Learning



Major Differences Between Average People and Achieving People

Average people fail backward	Achievers fail forward
Failing Backward	Failing Forward
• Blaming others	• Taking responsibility
• Repeating the same mistakes	• Learning from each mistake
• Expecting never to fail again	• Knowing failure is a part of progress
• Accepting tradition blindly	• Challenging outdated assumptions
• Being limited by past mistakes	• Taking new risks
• Thinking I am a failure	• Believing something didn't work
• Quitting	• persevering

- **Maxwell says that the only thing or the difference between average people and achieving people is their <u>perception of and response to failure</u>.**

Super Success After Devastating Failure

1. Arianna Huffington got rejected by 36 publishers.

She is one of the most recognizable names in online publications. She was rejected by 36 publishers for her first book.

2. Bill Gates watched his first company crumble.

Gates started Traf-O-Data aiming to process and analyze the data from traffic tapes (think of it like an early version of big data). It was a complete disaster.

3. Walt Disney was told he lacked creativity.

Arguably one of the most creative geniuses of the 20th century Walt Disney was once fired from a newspaper blaming, he lacked creativity. Disney formed his first animation company, Laugh-O-Gram Films. He raised $15,000 for the company but eventually was forced to close Laugh-O-Gram. He failed in many other initiatives in Hollywood.

4. Steve Jobs was booted from his own company.

Jobs found success in his 20s when Apple became a massive empire, but when he was 30, Apple’s board of directors decided to fire him.

5. Milton Hershey started three candy companies before Hershey’s.

Was fired from an apprenticeship with a printer. Hershey started three separate candy-related ventures, all of which failed, but succeeded in his fourth venture.

Here Are Some Excerpts from 'The 21 Irrefutable Law Of Leadership' – John C. Maxwell

- Successful people learn to do what does not come naturally. Nothing worth achieving comes easily. The only way to fail forward and achieve your dreams is to cultivate tenacity and persistence.
- Success is in the journey, the continual process. And no matter how hard you work, you will not create the perfect plan or execute it without error. You will never get to the point that you no longer make mistakes, that you no longer fail.
- The fellow who never makes a mistake takes his orders from one who does. Wake up and realize this: Failure is simply a price we pay to achieve success.

What is the root of achievement or success?

- **Family background? The fact is that high percentage of successful people come from broken homes.**
- **Wealth? Some of the greatest achievers come from households of average to below-average means.**
- **Opportunity? One of the two persons with the same background would view a situation as a tremendous opportunity while the other would see nothing or something too risky.**

Some Final Words

- It is almost certain that failure is almost inescapable. But one's response to failure differentiates successful ones from the failed ones.
- Learning from failure is the best way to move forward. Failure is actually great investment provided you learn from it.
- Accept that failure is waiting there to happen and save your resources for restarting.

- ***"Drive thy business or it will drive thee."*** **- Benjamin Franklin**
- ***"Every paisa counts and every second counts" - xxxx***

Concluding remarks

- Most of the reasons for failure can be averted with preemptive strategies, comprehensive plan, and smart execution.
- Failure is an investment for gaining maturity and achieve success.

“Life’s too short to build something nobody wants. “- Ash Maurya

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Zilingo

- Ankiti Bose

- Don’t blindly chase higher valuation or growth, focus of profit on profitable growth.
- Ethics matters more than one thinks.
- Do not lose synergies.

- Identifying opportunities and execution is primary in any business.