Why do startup companies fail??
Discussion topic for Enterprise and the Entrepreneur
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Rule # 1: Companies fail because they run out of money.

Startups almost always fail because they run out of money. The checking account goes to zero and the company cannot pay employees, rent, utilities, and so forth (or this is anticipated to happen in the near future so the company is folded up).

But that begs another question: ***Why does the company run out of money?***

Almost always the technology startup runs out of money and fails because of some combination of the same three causes:

1. The company takes too long and hence spends too much money on developing product sufficiently to bring it to market. In a few words, the company fails to meet it's project deadlines and hence fails to meet its budget (if it has a budget),

2. The company is too slow in ramping up sales to a level sufficient to provide adequate relief to continuing or growing costs. The company overestimates the ease and pace of sales.

3. Typically because one or both of these first two problems are manifest, the company is unsuccessful at additional fundraising, especially if that fundraising is expected to come from an institutional source like a venture capital firm.

Point number three is self-evident, but we can engage in infinite regress on the other two. We could take the core reason for failure deeper and deeper. Let's do that up to a point.

Why do companies take too long and spend too much money developing their products?

Startups are often staffed by an enthusiastic but inexperienced and undisciplined team. This is especially true of startups formed among friends who have recently graduated from college and have little professional experience. In many cases development timelines are not set or constitute little more than wild guesses. In most cases where timelines are set they are not honored and there is little or no penalty internally for missing them. Inexperienced engineers, programmers, or technical people are often not used to working on large team projects that require team management and coordination. Some of the same people do not have the primary core knowledge that comes from experience and are therefore on a very slow learning curve. Rather than apply their knowledge as they go, they have to develop their knowledge as they go. The complexity of projects are completely under-appreciated. The projects are not well defined and that leads to confusion, disagreement, and delays. Projects become plagued by feature-creep (sometimes made necessary by the competition). The list goes on and on.

Why do companies fail to ramp up sales fast enough?

Young entrepreneurs with technical backgrounds are often extremely naive about sales and the difficulty of sales. Some dislike sales and the stress involved and will find ways to work on product rather than work on sales. Some naive entrepreneurs essentially disrespect sales and marketing people and fail to recognize or understand the importance of and difficulty of a well-coordinated sales effort. Failure in sales sometimes implies that you have created a product that will not sell (there is no market) or will not sell at a price that will allow you to cover costs (a common problem in the technology boom of the late 1990s). If not that, failure in sales may be due to the failure to identify your sales targets, inability to approach the right people even when you know the target, poor support material, inadequate sales tracking, poor presentation, improper pricing, inability to negotiate or execute contracts ... the list of what can go wrong is almost endless.

It is *not* necessarily the case that people with strong technical backgrounds and limited business training make poor salesmen. People with technical backgrounds often rise to the occasion and do a good job, especially if (and sometimes only if) their clients have similar backgrounds. However, sometimes technical people are not good salesmen and they fail to recognize that.

The failure to raise money and other issues

Funding and the problems of funding are so sufficiently complex that we will defer this discussion to the segment of the course dedicated to funding.

When considering all three issues above, as has been said in other contexts, the ***character*** of key company personnel, and especially the CEO, will be the root cause, the quintessential cause of company failure. After all, if a leader can't anticipate these problems above, or see them as they appear, or fail to act on them for remedy because they are up to something else or playing a different game than the serious game of business, then the root cause of running out of money and failing is defect of character.