THE CURRENT STATE OF THE STARTUP ECOSYSTEM

Starting a new business is a daunting undertaking rife with peril. Despite the odds-against, many ambitious entrepreneurs accept this challenge at some time in their lives. While there are no precise sources to track the number of new startups, research suggests that there are tens of millions of startups at some stage of business development at any given moment in time.

Most great ideas and the businesses that they drive, however, never come to successful fruition. An analysis of startups (specifically high growth tech ventures), shows that 92% of them fail within the first three years (some investment firms claim to have lower failure rates). We believe that EDGE196™'s 3-Ms can provide a measurable, positive increase to a startup's potential for success.

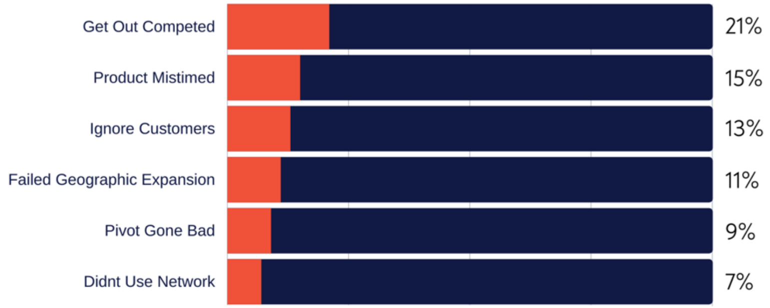
CHALLENGES FACING STARTUPS

There have been various research studies that have uncovered the reasons for the failure of startup companies. These studies cite several reasons, including lack of proper product-market fit, lack of productive team, and the inability to "master the message." We believe that some entreprenuers lack general finance experience, some lack HR and other business management expertise, others can't gain access to necessary support services and customers. These challenges are interconnected, or sometimes precursors of the other.

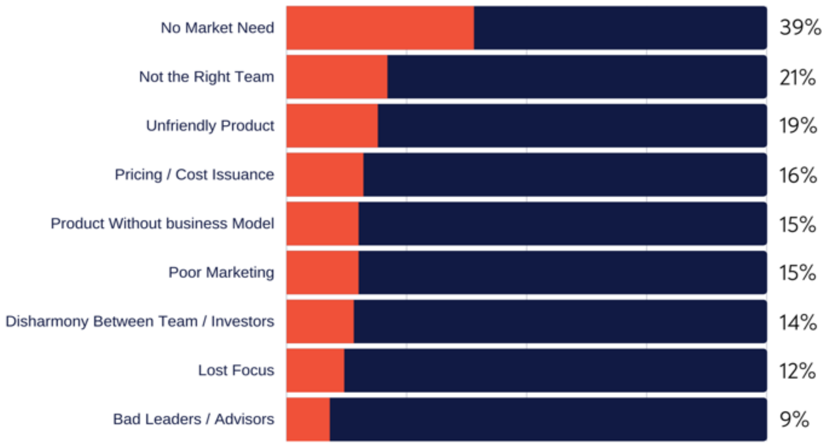
For example, when a startup struggles after hiring the wrong people, it is more likely to run out of cash before its products gain market acceptance.
Another reason common failure is poor marketing and ineffective messaging. For instance, despite having a great idea, great product, a flawless sales platform can cause a startup to fail.

Most failures can be summed up by saying that the startup runs out of cash before its products reach customer acceptance.

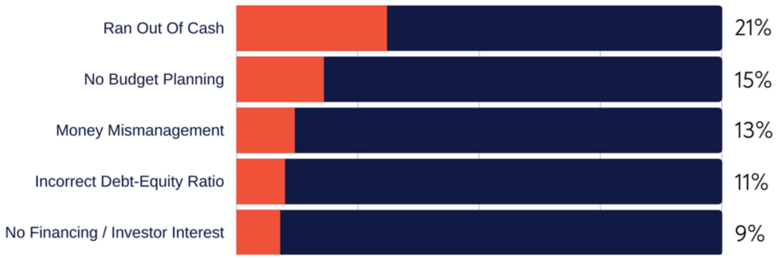
Ignorance about the market



Lack of effective mentoring



Insufficient Money



Many entrepreneurs invest their friends and family, to a greater or lesser extent, in the success of their projects. The failure of startups as a result of the challenges listed to the left not only impedes innovation and funding, it also hurts the friends and family who invest in the enterprise.

If an entrepreneur passes the friends and family round, the next set of investors are usually angels and venture capitalists. These angels and VCs usually use a "shot gun" approach by taking small stakes in many startups and try to overcome the overwhelming failure percentages by riding heavy on the backs of the few successes the pool.

Along the way, investors eager for success often become Impatient and apply counterproductive pressure on the startups. This pressure can cause startups to miss longer-dated opportunities.

The charts to the left show the main reasons why startups fail according to EDGE196™ proprietary research.

< *Figure 1: CB Insights analysis of 1,098 tech companies*