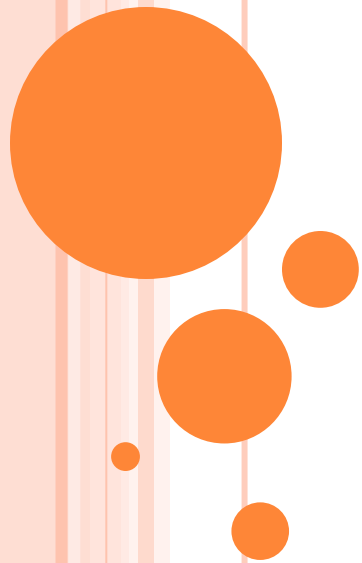
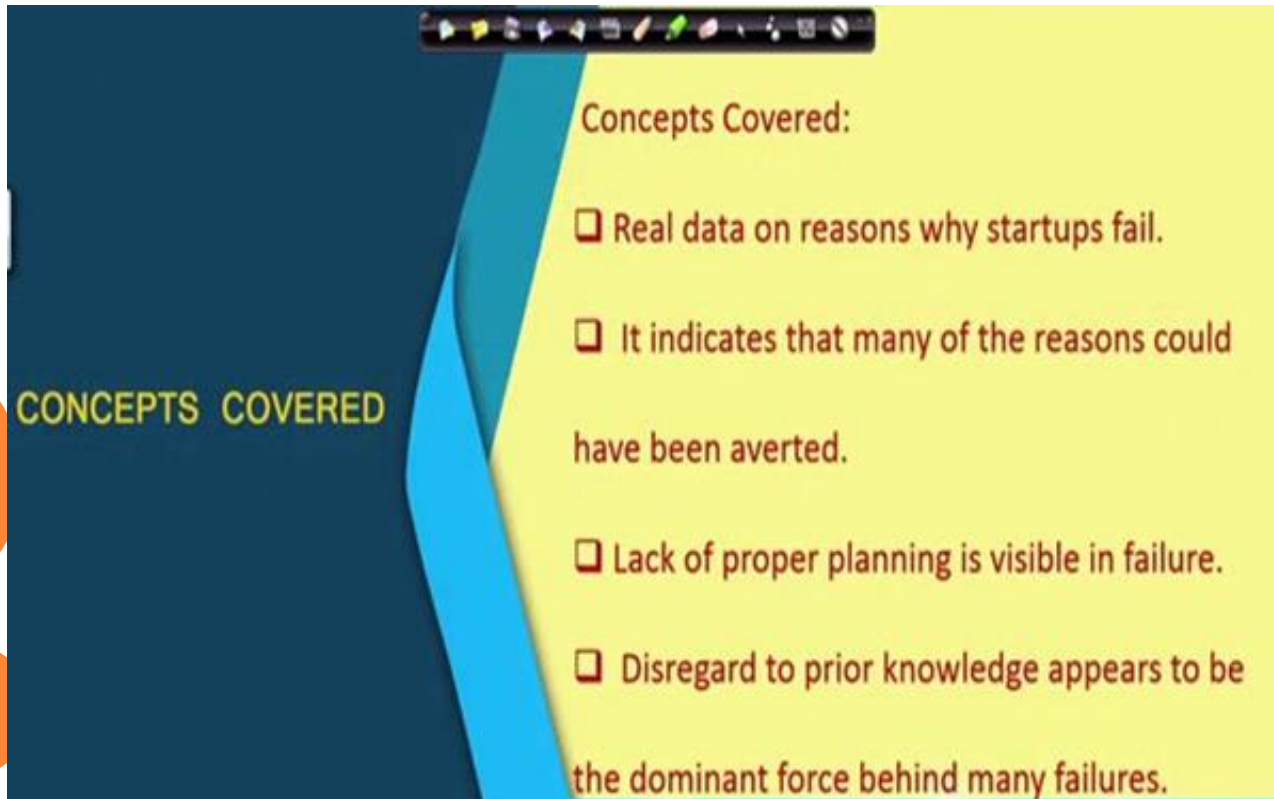


ENTREPRENEURSHIP

Lecture - 06 Why Startups Fail



WHY STARTUPS FAIL



CONCEPTS COVERED

Concepts Covered:

- ☐ Real data on reasons why startups fail.
- ☐ It indicates that many of the reasons could have been averted.
- ☐ Lack of proper planning is visible in failure.
- ☐ Disregard to prior knowledge appears to be the dominant force behind many failures.

WHY STARTUPS FAIL

- *"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 Maxwell, Failing Forward: How to Make the Most of Your Mistakes

- *"If you're not failing, you're probably not really moving forward."*

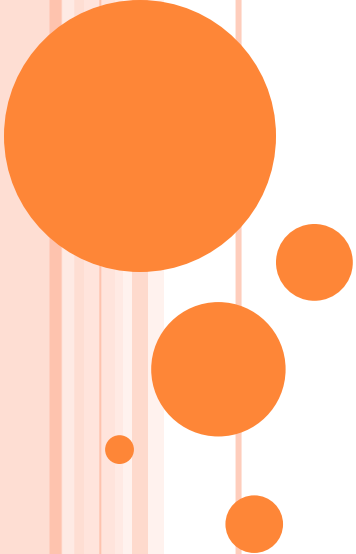
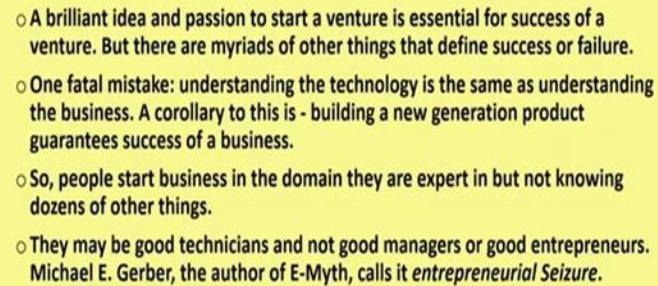
- John C. Maxwell, Failing Forward: How to Make the Most of Your Mistakes

WHY STARTUPS FAIL

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/>

WHY STARTUPS FAIL

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- A brilliant idea and passion to start a venture is essential for success of a venture. But there are myriads of other things that 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.
 - So, people start business in the domain they are expert in but not knowing dozens of other things.
 - They may be good technicians and not good managers or good entrepreneurs. Michael E. Gerber, the author of E-Myth, calls it *entrepreneurial Seizure*.

WHY STARTUPS FAIL

Entrepreneur, Managers, and Technicians

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

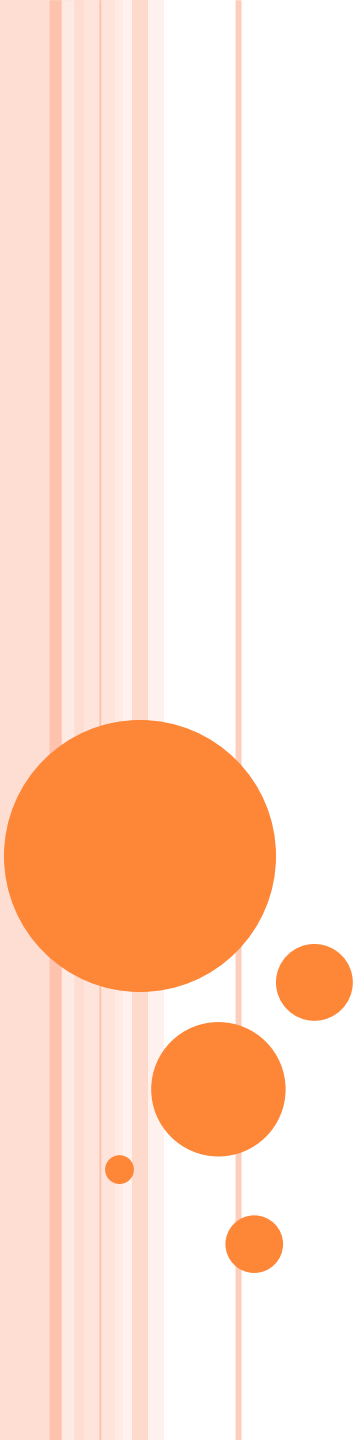
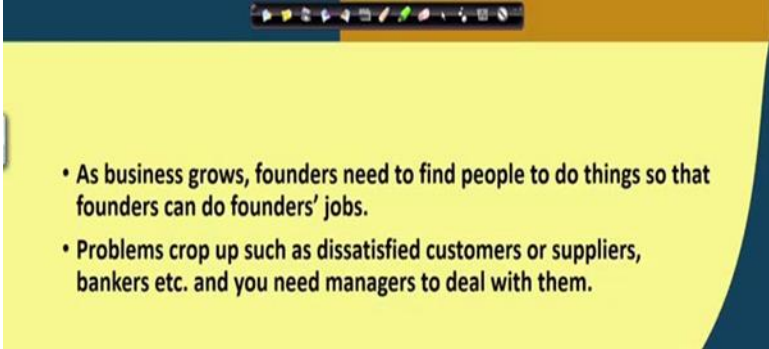
Technician, manager, and entrepreneur personalities are all critically important for business success. But very few individuals can assume all three of them. Even if anyone can, it is difficult to function all three roles simultaneously.

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

Technicians are doers and would think that business will not run without him 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.

WHY STARTUPS FAIL

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

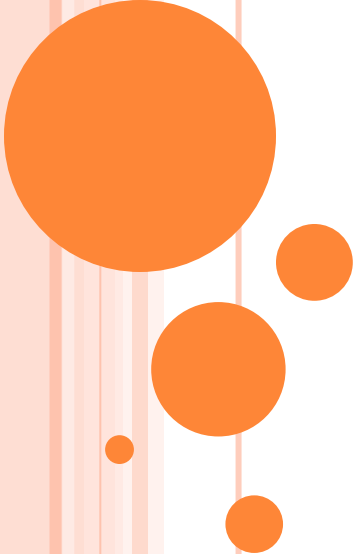
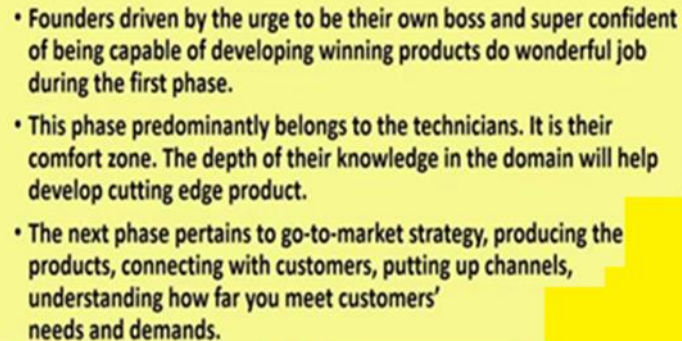
WHY STARTUPS FAIL

Revisiting How a Business Is Born ... 1

The Idea to Product Phase – Birth of a product

- # Understand the problem – empathize with the concerned people, know their aspiration, likings and disliking.
- # Explore available solutions, identify their inadequacies to satisfy customers' pain.
- # Explore possibility of designing a competitive solution.
- # If a solution appears plausible, start ideation, engage with end-users, prototype, validate, refine prototype, market test, launch.
- # Look for funding as may be necessary – particularly from friends, relatives incubators, government grants and seed capital, crowdfunding.

WHY STARTUPS FAIL

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- Founders driven by the urge to be their own boss and super confident of being capable of developing winning products do wonderful job during the first phase.
 - This phase predominantly belongs to the technicians. It is their comfort zone. The depth of their knowledge in the domain will help develop cutting edge product.
 - The next phase pertains to go-to-market strategy, producing the products, connecting with customers, putting up channels, understanding how far you meet customers' needs and demands.

WHY STARTUPS FAIL

Revisiting How a Business Is Born ... 2

Go-to-Market Phase – birth of a company

- # Recruit early employees to supplement the necessary talent.
- # Go-to-market strategy.
- # Plan for marketing channels and distribution.
- # Look for funding for growth – angel investors.
- # Marketing and promotional initiative for awareness.
- # Put up infrastructure to meet growing demand.
- # Constantly strive to improve customer satisfaction. Remain circumspective and vigilant about competition.
- # Collect and analyze data on repeat customers, competition.

WHY STARTUPS FAIL

- The technician entrepreneurs hire early employees to manage different aspects of the business.
- But things have a pesky tendency to go the wrong way and the founders tend to manage it all.
- The founders get overly busy managing the evolving unexpected troubles both from exogenous and endogenous sources.
- There may be a tendency to divert attention from improving the product or come up with the idea of next product, rather get besotted with firefighting.
- In the process the entrepreneur may be lost. So hire managers.
- These are jobs of managers who have proven expertise to do them and should let them do.

WHY STARTUPS FAIL

Revisiting How a Business Is Born ... 3

Now that the product is in place, firms need to build other essential capabilities:

Operational and other ordinary capabilities, the routine activities, administration, and basic governance that allow any organization to pursue a given production program, or defined set of activities, more or less efficiently.

New product development, expansion into new sales regions, and other actions that constitute astute managerial decision making under uncertainty.

These are part of 'business process management' or dynamic capabilities (Teece 2018)

The Growth Phase – The Growth Phase

WHY STARTUPS FAIL

Business Process Management (BPM) Is a Continuous Process

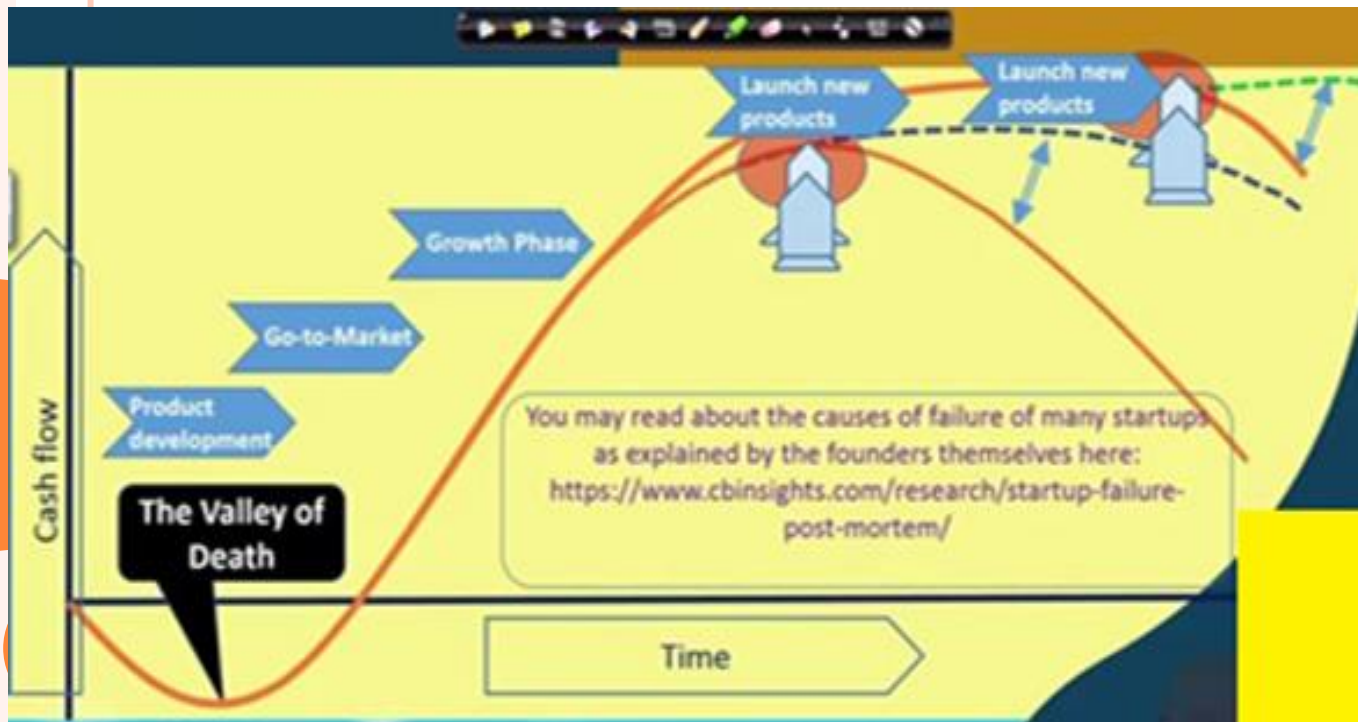
- 1) Brings about clarity on strategic direction,
 - 2) alignment of the firm's resources, and
 - 3) increased discipline in daily operations.
- BPM is an enterprise-wide, structured approach to providing the products and services that your customer's value most.
 - It is grounded in the premise that 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.

WHY STARTUPS FAIL

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.

WHY STARTUPS FAIL



WHY STARTUPS FAIL

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 one thing: we 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.

WHY STARTUPS FAIL

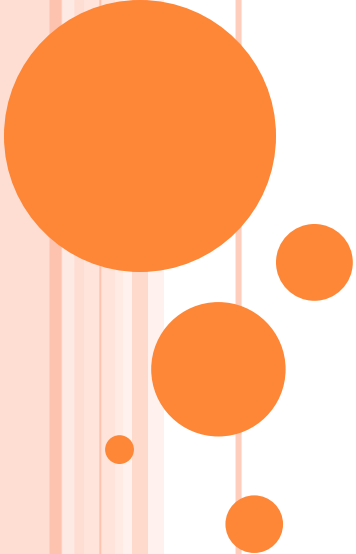
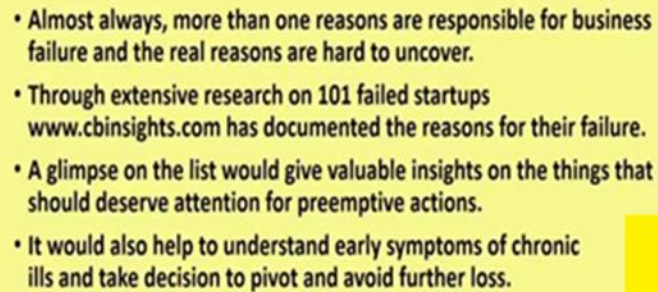
- Startups fail even after raising significant amount of fund and sales.
- Studies on recent developments show that 70% of the start-up failed after raising first round of fund.
- It also reveals that 70% of upstart tech companies fail — usually around 20 months after raising the first financing.
- The statistics on consumer hardware startups are particularly brutal with 97% of the seed or crowfunded startups eventually dying or not gaining traction.

WHY STARTUPS FAIL

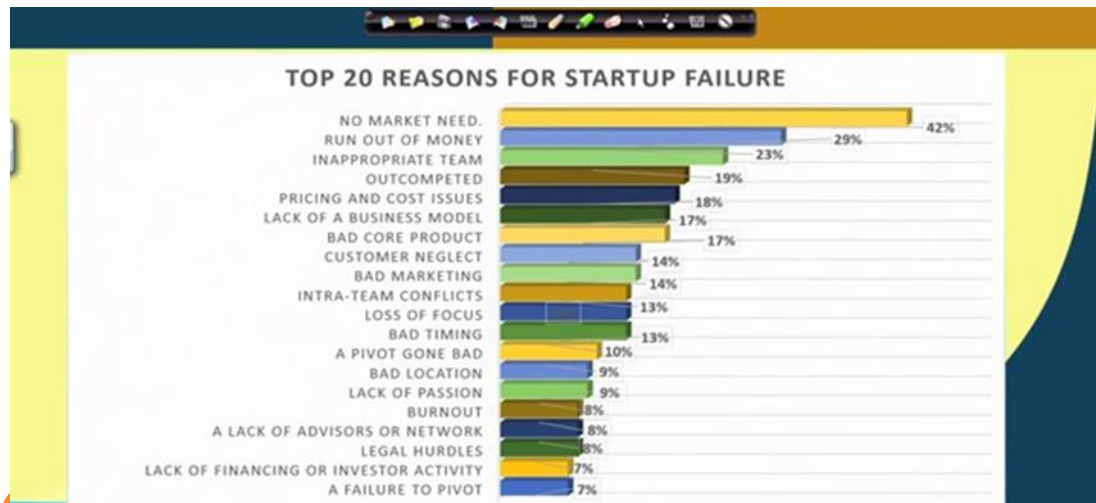
Should these Data Intimidate Aspiring Entrepreneurs?

- Once you know why majority of the startups fail you would tend to think that a good percentage of the failures could be prevented by preemptive course corrections.

WHY STARTUPS FAIL

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- 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.
 - 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 pivot and avoid further loss.

WHY STARTUPS FAIL



WHY STARTUPS FAIL



WHY STARTUPS FAIL

- The reason for failure of the largest number of ventures is that they create a product that customers just don't want or are not ready to pay the price for.
- It may also be the case that there are better products in the market to meet their need that may also be cheaper or with higher performance or just the right product the customer is happy with.
- This issue of customers' likability is popularly referred to as product-market-fit. It is the degree to which a product satisfies customers' need 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!

WHY STARTUPS FAIL

Example

- The Iridium communications service or Iridium SSC was launched on November 1, 1998 for capital investment of US\$6 billion.
- Motorola was the technology provider.
- What the founder assumed?
- Communication made possible from anywhere to anywhere. People have every reason to lap it up.



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

WHY STARTUPS FAIL

Facts

- Nine months later, on August 13, 1999, filed for bankruptcy. Why?
- Every single call has to be routed through all satellites. Required entire constellation of 66 active satellites to make any call.
- The cost of service was prohibitively high for the most users.
- Indoor reception was poor, if at all possible.
- The hand held device was bulky.
- Calls were expensive.
- The present owners bought it for US\$35 million.

WHY STARTUPS FAIL

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 ahead of time.
- Ancillary industries were not well developed.

WHY STARTUPS FAIL

- We have a tendency to overlook the fact that people are different and they are not likely to think what we are thinking. We must validate our proposition even before setting the journey and constantly get verification so that we are making the perfect customer-product fit and at the same time we are not adding features that they do not appreciate.
- Therefore, it is a seminal mistake to focus only on building the product that you think is brilliant and not getting it validated by customers.
- Many entrepreneurs do not make distinctions between 'must have' and 'nice to have' features and they end up spending too much time and resources building them only to realize that customers do not care about it.
- "Life's too short to build something nobody wants." - Ash Maurya

WHY STARTUPS FAIL

- 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 for customers in a competitive way.
- Get customers' feedback right at the beginning and never lose focus to the changing needs of the customers.

WHY STARTUPS FAIL

Running Out of Cash (29%)

- The 2nd biggest reason for start-up failure is running out of cash.
- This may be triggered by lack of financial planning, failure to preemptively assess negative cash flow arrange the money, not growing fast enough and losing attractiveness in the eyes of investors.

WHY STARTUPS FAIL

Example: Ran Out of Cash

- Drone startup Airware crashes, shuts down after burning \$118M
- Here is what the founder wrote in 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.”

WHY STARTUPS FAIL

- “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, says.
- “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

WHY STARTUPS FAIL



WHY STARTUPS FAIL

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, technology guy thinks that my job is to code. But whose job is business process?
- If business process is neglected it may be fatal!

WHY STARTUPS FAIL

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

WHY STARTUPS FAIL

BPM

- 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

WHY STARTUPS FAIL

Being a One-Person Team

- “Individuals don’t build great companies, teams do.” -Mark Suster
- Y-Combinator President: Sam Altman says:
- Twenty most valuable companies have at least two co-founders.
- Startups with 2 – 3 co-founders work best.

WHY STARTUPS FAIL

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 100X easier.
- 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.**

WHY STARTUPS FAIL

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.

WHY STARTUPS FAIL

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 problem 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.

WHY STARTUPS FAIL

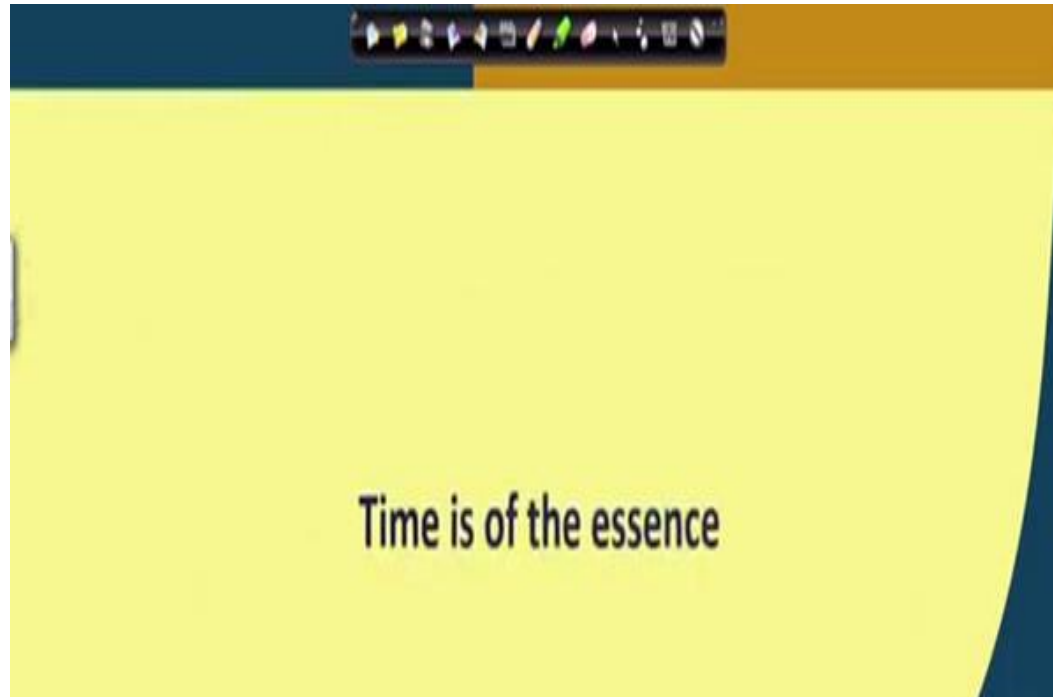
Lack of focus

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

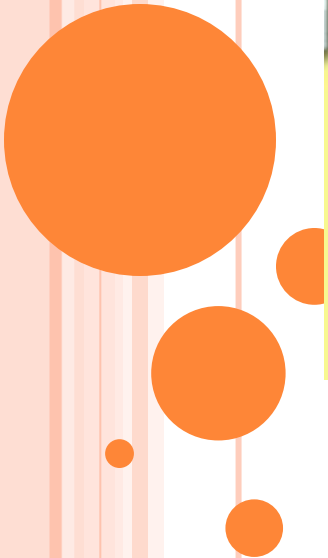
If you find yourself doing one of the following things without knowing they're going to move the needle, STOP!

- **"Coffeees,"** whether that's with potential partners, investors or acquirers.
- **Networking.** Seriously...
- **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.**

WHY STARTUPS FAIL



WHY STARTUPS FAIL



Fail Fast, Fail Early, and Fail Forward

WHY STARTUPS FAIL



Major Differences Between Average People and Achieving People	
Average people fail backward	Achievers fail forward
Failing Backward	Failing Forward
<ul style="list-style-type: none">• Blaming others• Repeating the same mistakes• Expecting never to fail again• Accepting tradition blindly• Being limited by past mistakes• Thinking I am a failure• Quitting	<ul style="list-style-type: none">• Taking responsibility• Learning from each mistake• Knowing failure is a part of progress• Challenging outdated assumptions• Taking new risks• Believing something didn't work• persevering

WHY STARTUPS FAIL

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.

WHY STARTUPS FAIL

What is the root of achievement?


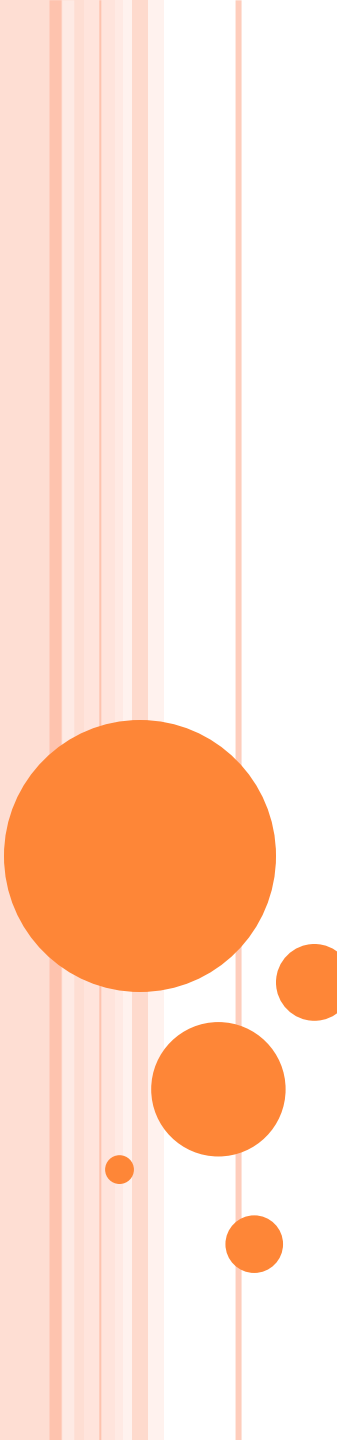
- Family background? The fact is that high percentage of successful people come from broken homes.
- Wealth? Some of the greatest achievers come from households of average to below-average means.
- Opportunity? One of the two persons with the same background would view a situation as a tremendous opportunity while the other would see nothing or something too risky.
- Maxwell says that the only thing or the difference between average people and achieving people is their perception of and response to failure.

WHY STARTUPS FAIL

Some Last Words

- Understand why startups fail.
- Prepare strategies to avoid the most obvious causes of failure.
- There will still be chances of failure. So do research whenever things go the way you did not expect.
- Restart with refinements or pivot with new idea.
- 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.

WHY STARTUPS FAIL



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