90% Of Startups Fail: Here's What You Need To Know About The 10%

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As an entrepreneur, I know about failure. I've made mistakes, pretty stupid ones. At the same time, though, I've been fortunate enough to succeed a few times, too.

Along the way, I've been able to understand some of the lesser-known reasons that some startups fail, and more importantly why a few succeed.

How many startups fail?

Nine out of ten startups will fail. This is a hard and bleak truth, but one that you'd do well to meditate on. Entrepreneurs may even want to write their failure post-mortem before they launch their business.

Why? Because very optimistic entrepreneur needs a dose of reality now and then. Cold statistics like these are not intended to discourage entrepreneurs, but to encourage them to work smarter and harder.

What are the characteristics of startups that succeed?

There are plenty of characteristics of successful startups. My goal isn't to list them all for you, but rather to point out some of the most significant causes of success.

1. The product is perfect for the market.

Fortune reported the "top reason" that startups fail: "They make products no one wants." A careful survey of failed startups determined that 42% of them identified the "lack of a market need for their product" as the single biggest reason for their failure.

If you're going to spend your time making a product, then spend your time making sure it's the right product for the right market.

2. The entrepreneur does not ignore *anything*.

After their company folded, Dijiwan's leaders wrote this:

A good product idea and a strong technical team are not a guarantee of a sustainable business. One should not ignore the business process and issues of a company because it is not their job. It can eventually deprive them from any future in that company.

Ouch. They had a great product. They had a strong team. What did they lack?

An under-the-hood look at Dijiwan makes it clear. They overlooked key aspects of business process and the "boring stuff." The CEO thinks, "It's my job to lead." The CMO thinks, "It's my job to market." The lead developer thinks, "It's my job to code."

But a startup can't segment its responsibilities like that. Things are far more organic in a startup, meaning that roles and responsibilities will overlap. Small things can turn into large things. Some of the most important components of a startup are those pesky issues of business process, business model, and scalability.

Successful entrepreneurs understand that they must work *on* their business, not *in* their business. Getting caught up in the minutiae of presentations, phone calls, meetings, and emails can distract the entrepreneur from the heart of the business.

3. The company grows *fast*.

Who says that fast growth is unsustainable? And who even cares?

Growth — fast growth — is what entrepreneurs crave, investors need, and

markets want. Rapid growth is the sign of a great idea in a hot market.

The founders of Wantful (inactive), confessed that they did not accomplish "highly accelerated growth required to secure later-stage venture capital." They needed funding, but when the company didn't grow fast enough, they weren't eligible to secure more funding. That was the beginning of the end.

Growth leads to more growth, which leads to even more growth. A startup should not be satisfied with marginal single-digit growth rates after many months of operating. If the growth doesn't happen after a certain amount of time, then the growth will not happen. A company that is not growing is shrinking.

The second major reason why startups fail is that they "ran out of cash." Why did they run out of cash? Because they didn't grow fast enough. If your startup can grow fast, you can effectively bypass some of the biggest startup killers — losing to the competition, losing customers, losing personnel, and losing passion.

Rapid growth early on is a sure sign of future success.

4. The team knows how to recover.

Every startup is backed by a team of people. The more versatile that team, the better chance they have of succeeding.

"Versatility" is often viewed in a limited sense, that of possessing more than one skill or talent. Versatility in the startup environment involves much more than someone's skillset. It involves mindset. Startup teams must possess the ability to change products, adjust to different compensation plans, take up a new marketing approach, shift industries, rebrand the business, or even tear down a business and start all over again.

It's all about recovering from blows. Teams that are able to recover together, also possess the unique trait of harmoniously working together through tough times.

I've also noticed that startups with co-founders have a higher success rate than companies with a single founder. Having a cofounder creates a partnership. There's much more accountability, which helps you to avoid some of the pitfalls of a single charismatic leader. Plus, a cofounder will have skills that you don't have.

Conclusion

If your startup lasts, you're lucky. You've been able to do something that 90% of new businesses haven't.

Even though there's a lot of luck involved in the success stories like Google GOOGL -1.3% and Facebook, there are more humble reasons why other startups succeed. They have a product that meets a need, they don't ignore anything, they grow fast, and they recover from the hard-knock startup life.

If you've got these four characteristics, then you're setting yourself up for major success.

What characteristics have you noticed about the startups that succeed?

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