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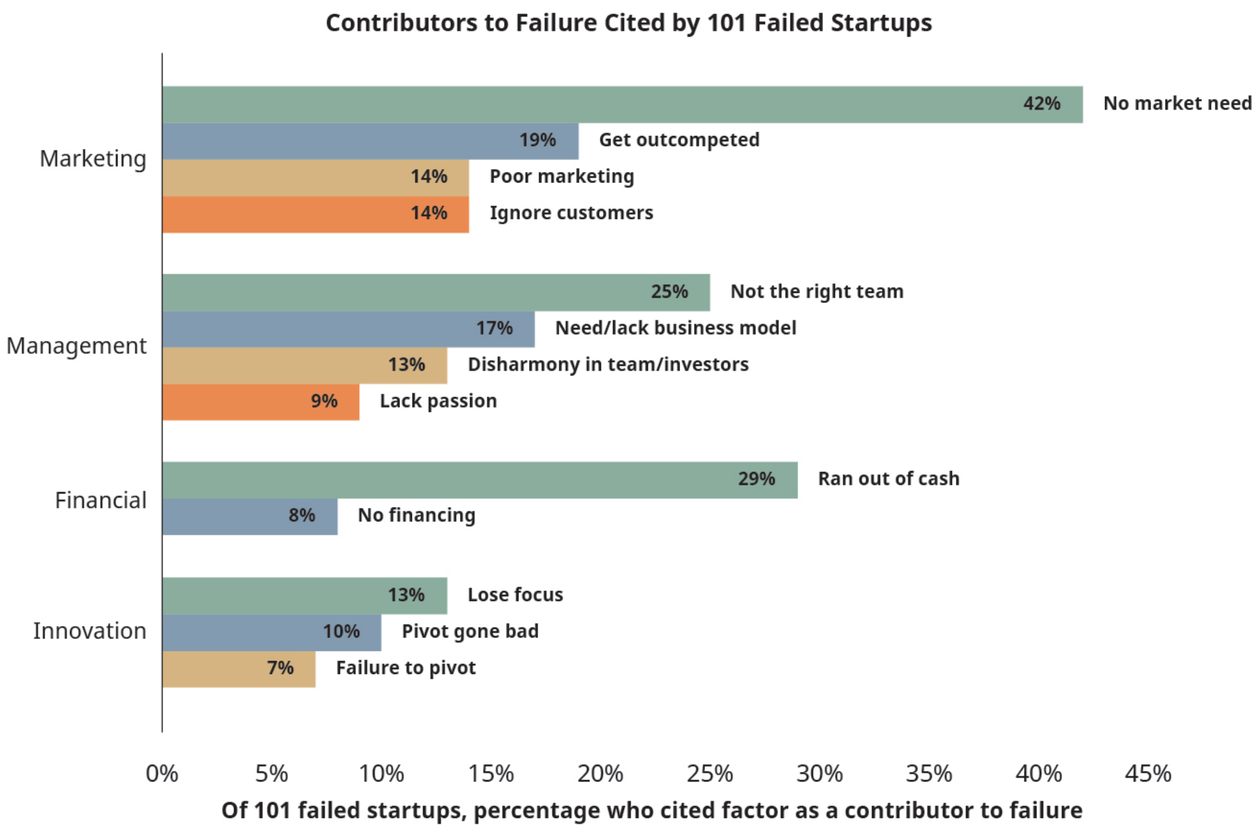
Common Contributors to Failure

There are some common reasons for failure that often combine to end a business. However, there are often ways to prevent these failures from happening. CB Insights, a company that mines and analyzes data for companies and uses machine learning to help them answer complicated strategic questions, researched the factors that contributed to the failures of 101 startups. Figure 10.6 shows some of the main factors they identified in their research.

25 Zach Ho. "Jack Ma: If You're Still Poor at 35, You Deserve It!" *Vulcan Post*. April 15, 2014. https://vulcanpost.com/7702/jack-ma-youre-still-poor-35-deserve/

26 Zach Ho. "Jack Ma: If You're Still Poor at 35, You Deserve It!" *Vulcan Post*. April 15, 2014. https://vulcanpost.com/7702/jack-ma-youre-still-poor-35-deserve/

27 Jessica Sylvester. "The Rise and Fall of Quirky: The Startup That Bet Big on the Genius of Regular Folks." *New York Magazine*. September 13, 2015. http://nymag.com/daily/intelligencer/2015/09/they-were-quirky.html



Source: CB Insights. "The Top 20 Reasons Startups Fail." n.d. https://s3-us-west-2.amazonaws.com/cbi-content/research-reports/The-20-Reasons-Startups-Fail.pdf

Figure 10.6 Startups that falter identify some common obstacles to success. (attribution: Copyright Rice University, OpenStax, under CC BY 4.0 license)

In the following discussion, we expand on some of these reasons for failure and offer advice on how to avoid them. Considering the following failures will give you an idea of what may go wrong in a business but will also help you spot and correct them before you launch.

Marketing Failure

Some of the most common failures result from marketing missteps.

- *Lack of differentiation of product or service*. Creating or running a company with a me-too mentality and without a clear unique selling proposition or difference from other established businesses can be detrimental. Answering questions such as “Why should customers leave other companies to buy my product?” “What is a benefit I provide that no one else does?” and “If I open a yogurt parlor in a commercial area, what will help my business differentiate itself from all the other yogurt, ice cream, dessert, and fast food places?” can help create ways to be special rather than a me-too business. This also needs to be defined in your mission, within your products and their benefits, and a clearly defined competitive advantage that can be translated into a superior value proposition. The chapters on Entrepreneurial Marketing and Sales and Identifying Entrepreneurial Opportunity discuss competitive advantages and value propositions in more detail.
- *Missing the right customer*. Not reaching the target market can lead to failure. Perhaps for your travel tour

business, you targeted single people ages 18–34 who like to experience travel in a different way, but maybe your true target—the people who want to book your tours—are couples with children and those 50 and over. You would have sent out marketing communications to the wrong age group. Or, the right message is not being conveyed and your positioning is off, preventing you from connecting with your true consumer. Conducting market research as discussed in Entrepreneurial Marketing and Sales and testing your communication with various targets can help better define your customer.

Management Failure

These are some typical management challenges that can prove detrimental.

- *Passion wanes or not the right business*. Sometimes the reason a business fails is due to a simple reason: The founder has lost excitement over the business and is no longer interested in making it succeed. Other times, the problem may stem from not having the right focus or idea, which can come from a lack of awareness about trends in the market. Joel Delgado, a young entrepreneur who started El Paso’s first escape room called El Paso Disaster Room 915 in 2015, developed this business with three of his friends right after college. Although the business was very well received by young people who wanted this new form of entertainment, a few years later, he decided to close down the business and pursue a career in teaching. His passion had waned. Sometimes, entrepreneurs get bored with their startup, but there are ways to keep the business exciting by changing the product offerings.
- *Fighting founders*. Not agreeing over the strategies and direction of a business can deter companies from moving forward. If the founders are not working together and disagree too much, this can help dissolve the business quickly. Differing points of view can be healthy for a business, as these can bring other complementing perspectives, but when conflict doesn’t get resolved, it can be difficult to continue moving forward. Some business partners have found themselves ousted by their business partners because the relationships have suffered a deep strain. This happened to Steve Jobs in 1985 when he was let go by his own company. Often, it is difficult to assess when conflict will arise, so it is recommended that business partners work with people who have the same love for the business and its core values, even if they bring different strengths and temperaments to the table. This may reduce fights and sustain relationships. Having a contract in place that defines who is in charge of what part of the business, their compensation, and what happens if anyone departs, is a good way to ensure that the investment won’t be lost if partners decide to part ways.
- *Lack of planning*. One of the surest roads to failure is to not have a business plan or marketing plan. Even using the lean startup method requires some sort of planning before embarking on the process. Planning helps business owners flesh out ideas and understand the business better. Following the business plan in Business Model and Plan and the marketing plan in Entrepreneurial Marketing and Sales can help solidify where the business is headed, whether its viable, and what resources are required to make it work. For example, imagine a business owner who opens a restaurant in an already-crowded market only to realize how much competition existed in the area. If the owner had researched and planned ahead, the venture could have been differentiated through the type of food offered, the location, or different promotional tactics to build clientele. Failure to plan in a situation like this can result in struggling to keep afloat and can lead to successive challenges. For example, the owner might raise prices to compensate for lower-than-expected revenue, but higher prices may drive away an already fragile customer base, and the venture may not be sustainable.

Financial Failure

Cash flow, debt, and capital are just some of the many financial factors that play a large role in startup success or failure.

- *Lack of cash*. Lacking cash to operate the business can trample its operations and lead to a quick decline. If there is no cash flow, it can also indicate that perhaps the business model is not working. For example, consider our fictional restaurant owner. A lack of customers means a lack of cash flowing in as revenue. Loans can provide some assistance while working to build the clientele, but loans can go only so far. If the business doesn't grow and develop a sustainable cash flow, its ability to operate will come to an end.
- *Too much debt*. Significant debt can hurt a business because it needs to pay back its lenders. In the previous example, if the restaurant owner takes on too much debt, it may struggle to pay it back due to its lack of cash flow.
- *Lack of capital*. Not having sufficient capital can deter the business from expanding or even from meeting customer demand. Having a clear business plan can help determine the financial requirements, which are the estimated sales and profits required for the successful attainment of goals. Financing for the business can come from an entrepreneur's own savings, bank loans, investors, and even friends and family. Having the right funding to start or grow a business can make or break the business. For instance, our restaurant owner would need enough capital to invest in kitchen equipment, appliances, and furniture to start the business. Undercapitalization in a startup could shut the business down before it even gets up and running. Once the business is running, ensuring that financial goals are met through metrics such as sales and profits can help prevent shortages of cash flow, which is essential to keeping a business alive.

Innovation Failure

Innovation can be tricky because it requires creativity, risk, and often some subjectivity, taking into consideration feelings and intuition in decision making. Lack of innovation and missteps in innovation can be obstacles to success.

- *Lack of innovation or failing to change effectively*. Companies that don't change their strategies, technology, or products run the risk of jeopardizing the business. Similarly, those that do change but not with the right adjustments risk failure. The build-measure-learn loop can help avoid these pitfalls by discerning what consumers really want and need by asking for their feedback.

Blockbuster, an instant hit out of the gates in the 1980s, failed to innovate, or pivot its business model, and went out of business. The video store revolutionized the media and movie industry by displaying empty boxes of its titles on shelves categorized by genre (the VHS tapes were kept behind the counter) and keeping late hours for night owls and last-minute weekenders wanting to catch a flick. Using a computer system to track videos as they were rented, most of its profit was made by the fees charged for late movie returns. In 1987, the company was bought by Wayne Huizenga, an American entrepreneur who owned several businesses in different industries and who developed Blockbuster into a successful business by modeling McDonald's approach. The enterprise grew from twenty locations to over 9,000 locations. Blockbuster was then acquired in 1993 by media giant Viacom in an intricate transaction. As streaming and related technology entered the market, Blockbuster failed to innovate by not making necessary pivots to its delivery of entertainment and so could not compete with new technology. Over the ensuing decade, it became more common to see Blockbuster stores with "store closing" banners, as shown in Figure 10.7, than it did to see a thriving store. There were other reasons why Blockbuster failed. Embedded with the lack of technology was the lack of fostering a culture of creativity from all of its employees, which hindered innovation. It lacked visionary leadership. It needed a culture of collaboration and teamwork to facilitate communication with stakeholders, such as employees, customers, and upper administration. Finally, it closed all but one of its stores in 2013.[28] By then, Netflix had completely changed the landscape of digital streaming services and left Blockbuster without a ticket to the show.

Figure 10.7 Blockbuster failed to change its distribution channel to cater to new generations of movie watchers. (credit: modification of “Blockbuster Store Closing, Ypsilanti Township, Michigan” by Dwight Burdette/Wikimedia Commons, CC BY 3.0)

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28 Jeanine Poggi. “Blockbuster’s Rise and Fall: The Long, Rewinding Road.” *TheStreet*. September 23, 2010. https://www.thestreet.com/story/10867574/1/the-rise-and-fall-of-blockbuster-the-long-rewinding-road.html