
MediaSlam
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WHY STARTUPS FAIL
Edition 05
70% of startups fail usually within 20 months of raising finances.
#TheDodester
CurtDoty.co

Startups are inherently riskier than established businesses. Amongst US startups:

20% Fail in their first year

50% Fail within five years

70% Fail within ten years

With a failure rate this high, it's important for you as an entrepreneur to know the most common reasons why startups fail, so you can try to avoid them.

While a reason is easy to define, it'll be hard for you to notice it before it's too late.

2022

No Market Need

The most common reason for startup failure is simply no market need for the product or service they're offering.

This startup failure reason can be credited to the reverse process that most entrepreneurs follow while starting up.

Instead of –

Identifying the problem -> finding the solution -> building a product -> monetizing it

Entrepreneurs choose to follow this –

Building a product -> identifying a problem related to the product -> aligning the solution -> monetizing it

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Cash Crunch

Money is the lifeblood of any business, especially startups. It is the key resource that is needed to keep the business running and to help it grow.

If a startup doesn't have enough money, it will quickly run into trouble.

And cash crunch is one of the most common reasons why startups fail.

A startup can run out of cash because of the following reasons:

- Failure to raise new capital
- No transparency
- Bad allocation of resources
- Mismanagement of funds
- Too much spending
- Arrogance and Deceit
- Lack of revenue
- Investors pull out their money

Competition Challenges

You might feel that being outcompeted is something that might not be a big deal for your startup because, after all, you're the one who brought the idea to the market.

But being outcompeted is an actual threat to any business and can quickly lead to failure if you're not careful.

In fact, **20%** of the startups in CB Insight's study cited competition as the primary reason for their failure.

Competition can come from many places.

It might be a new entrant to your market with a better product or service, an established player that enters your market, or even another startup that can execute better than you.

Whatever the source, if you're not prepared to deal with competition, it can quickly lead to the downfall of your startup.

Find the Zeitgeist. Stay in the Zeitgeist.

Unviable Business Model

A business model is how a company operates and makes money.

It forms the backbone of any business and needs to be strong and sustainable for the company to succeed.

A startup will eventually fail if it doesn't have a viable business model.

By viability, we mean a model that can generate enough revenue to cover costs and ultimately turn a profit that can sustain the business in the long run.

Your business can choose any of the several types of business models out there. But the model should suit your company, product, and target audience. It also needs to be scalable so you can grow as your customer base expands.

Incompetent Team

A startup is only as good as its team. This means you need to have a team with the skills and experience necessary to execute your business plan. If your team is not competent, it will be difficult to make your startup a success.

You can see team incompetency in the following cases:

- **Bad management:** If your team is not managed well, it will be challenging to get things done and make progress. This can lead to a lack of direction and confusion among team members.
- **Lack of skills:** You will likely struggle if your team does not have the skills required to execute your business plan. Make sure that you have a team in place that has the skills and experience necessary to succeed.
- **Lack of experience:** Startups often fail because they do not have the right mix of experience on their team. If your team is not experienced enough, you will likely make mistakes that could be costly.
- **Not loyal to the team:** Startups are often built on relationships and trust. If you are not loyal to your team, it will be difficult to build a successful business.

Legal Challenges

Legalities play a big role in business. Startups have to ensure they're adhering to all the laws and regulations in their industry, as well as any tariffs, zoning, labor laws and environmental protections that may apply to them.

It's important to clearly understand the legal landscape before starting your business. Hire or consult a lawyer who focuses on trademarks, patents, labor and securities, to help you figure out what you need and how to protect your product.

Mistimed Product

Launching too early or too late can be detrimental to your business. You need to ensure that there is a demand for your product or service and that you have the right team to execute your vision.

Around 10% of startup failures are due to a mistimed product launch. But most times, mistimed products can be corrected by pivoting your business model or finding a new market. This process, however, takes time, money, and a lot of effort.

Investor Issues

Investors can be both a startup's best friend and worst enemy. They provide the funding that allows startups to grow, but they also have a lot of control over the company.

One common issue is when investors try to interfere too much in the business's day-to-day operations. This can be frustrating for entrepreneurs who want to maintain creative control over their products.

Another problem is when investors include a lot of terms and conditions in their investment agreements. This can make it difficult for startups to raise additional funding or sell the company down the line.

Bottom Line

Startups also fail for various reasons outside of this list, but this should not deter you from starting up. No one said this would be easy. But if you do not want to perish like 90% of startups, you better avoid these common pitfalls. You will need lots of perseverance to succeed as a startup. You need to constantly plan, execute, track the results and learn from your mistakes. Plan well, don't be short-sighted, keep your ego aside and be flexible to ever-changing market dynamics.

Moreover, involve lawyers and other professionals to help you with the process so that you don't make any mistakes that could come back to bite you later on.

To avoid falling into these many traps, do your research, have a solid business plan, and be realistic about your company's potential.

Developing a viable business model is essential for any startup. For you, this means having a clear understanding of your target market, your customers, and your industry. You also need to understand the costs associated with your business model and have a plan for how you will generate revenue.

Thank you Aashish Pahwa for this great summary.

At CurtDoty.co we have a Smart to Finish process for Branding, Marketing and Product development to ensure success.

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