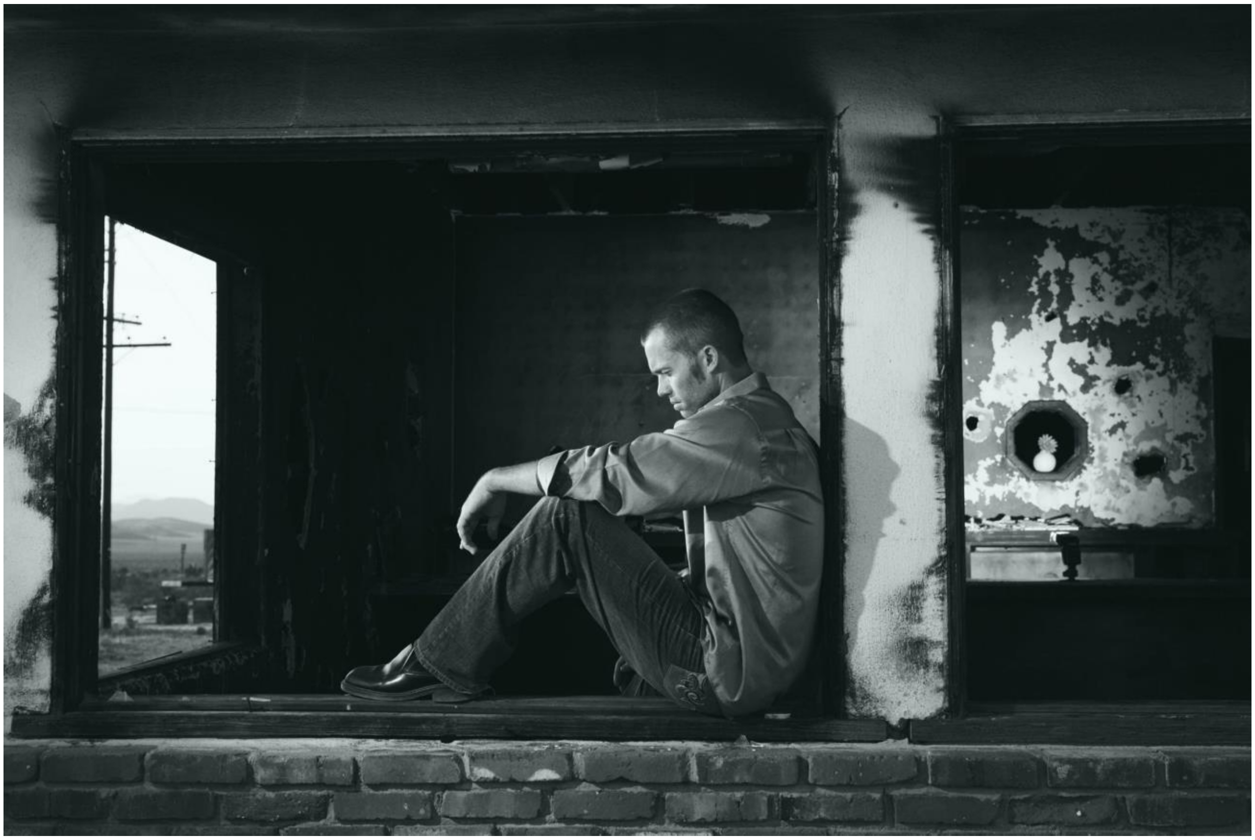

The Top Reasons Startups Fail (and How to Protect Yourself)

by Dennis Hammer

Here’s a sobering statistic: 70% of startups fail, usually about 20 months after they raise their first round of funding. (That failure rate balloons to 97% when you only look at hardware startups.)

CB Insights examined failed startups to learn what causes failure. The results are somewhat predictable, thought a few are unique. In this post, we’ll break down each cause (in order of most to least common) and give some advice on how to prevent it in your startup.

BASED ON ANALYSIS OF 101 STARTUP POSTMORTEMS

Top 20 Reasons Startups Fail

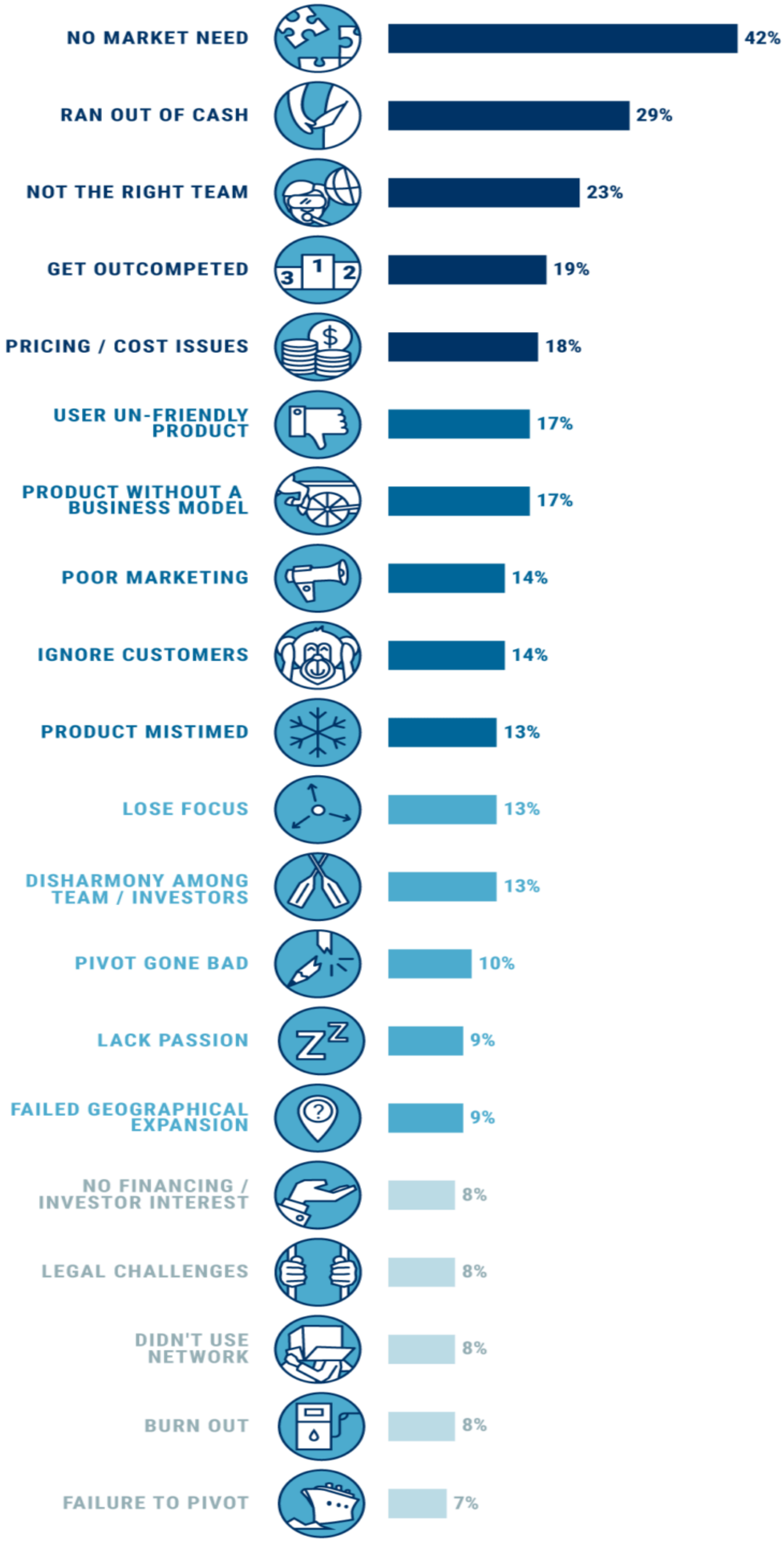

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Image: cbinsights.com

1. No Market Need
2. Lack of Cash
3. Wrong Team
4. Failure to Compete
5. Pricing Issue
6. User-Unfriendly Product
7. No Business Model
8. Poor Marketing
9. Ignoring Users
10. Mistimed Product
11. Loss of Focus
12. Discord in the Team or Investors
13. Poor Pivot Execution
14. Lack of Passion
15. Failed Geographical Expansion
16. No Investor Interest
17. Legal Challenges
18. Didn't Use Network
19. Burnout
20. Failure to Pivot

1. No Market Need

The most common reason startups fail is because the market doesn't need the product. Founders tend to build something that's interesting – something they *like* – but not something other people will pay to use. 42% of failed startups say they failed because there wasn't a need in the market.

How to protect yourself: Validate early and often. Find that elusive product/market fit as quickly as possible. Get paying customers early before you sink a lot of cash into development in case you have to pivot to sustainable model.

2. Lack of Cash

It's no surprise that 29% of failed startups cite this as the reason for their failure. If your runway ends before you earn enough to cover your expenses and you can't find funding, your startup is over.

How to protect yourself: Spending less and finding funding are the two simplest fixes, but a lack of cash is usually tied to other problems, like poor monetization, inefficient pricing, or high customer acquisition costs. First figure out *why* you're low on cash and then resolve that issue.

3. Wrong Team

The best startup teams have all skills they need to build a product for the market. It's alright to use outsiders (freelancers, outsourcers, contractors, etc.) for small things, but your team should have the tools in-house to create a sustainable company. For instance, it's *possible* to build a tech product without a technical co-founder, but you're all but guaranteed to fail.

How to protect yourself: Make sure you have an idea of what you'll need to build your company. Then find the right people to fill those roles, even if you have to take on more co-founders.

4. Failure to Compete

Your idea may be good, but your *execution* is more important. Sometimes no matter how hard you work, someone else manages to produce a better product, or produce the same product faster, or simply acquire more customers and grow quicker.

How to protect yourself: You shouldn't obsess over your competition (it's better to obsess over your customer), but you can't ignore the market. Keep an eye on your competitors and anyone else trying to enter your space.

5. Pricing Issue

Pricing a startup product (especially a subscription service) is a weird science. It can take a lot of experimentation to find a profitable price point that makes your customers comfortable. Plus, there are lots of unique ways to price a product other than a flat monthly fee. Some startups fail because they can never find that sweet spot.

How to protect yourself: First, determine what you *have* to make off each customer. Then experiment with different models and structures until you find one your customers don't balk at.

6. User-Unfriendly Product

If your product is hard to use, people will avoid it, especially if you have competitors who solve the same problem in an easier way. Many startups fail because users don't understand how to use the product or can't easily slide it into their workflow.

How to protect yourself: Learn about the user experience and how to craft your product and ancillary assets (like documentation, blog posts, help teams, etc.) to make your customers' lives easy.

7. No Business Model

Having a lot of users isn't enough. At some point you have to monetize them so that your revenue exceeds your expenses. If you don't have a sustainable business model, well… you don't really have a company at all. Many startups fail because they can't make money off their users, can't make money at scale, or tie their model to a very precise set of circumstances that can change and tank the whole company.

How to protect yourself: Create a monetization plan early so you always know *how* you'll make money, even if you focus on free user acquisition now. If you make a substantial change (like pivoting to a new customer, for instance), ask yourself if your monetization plan is still applicable.

8. Poor Marketing

Essentially, marketing is just finding your customer, expressing the benefits they'll receive by using your product, and compelling them to take some action. Even if you expect word-of-mouth to carry your product, you'll have to do *some* marketing in the beginning to kick things off.

Unfortunately, many startup founders are technical people who like to code and build. They fail because they spend too much of their resources building the product and fail to promote it.

How to protect yourself: Think about marketing *early.* Create a marketing plan using cheap or free strategies. Build a process to start marketing well before you need it.

9. Ignoring Users

The best path toward growth is by building a product people want to use. But you can't do that if you ignore their feedback, comments, and complaints. Many startups fail because they become focused on the type of product *they* think is best instead of listening to their customers.

How to protect yourself: Your users should drive your development. Their feedback should inform each new iteration of your product. Use surveys, interviews, and data to build the product they find most valuable.

10. Mistimed Product

There are a lot of ways to mistime your product. For instance:

- You release too early and customers say it's not good enough.
- You release a new technology before people are ready to adopt it.
- You release software their hardware can't support.
- You release too late and the space becomes crowded.
- You release too late and something better overtakes the market.

How to protect yourself: Get to know your customers as well as possible as early as possible so you aren't surprised by the market's preferences.

11. Loss of Focus

13% of failed startups say they were distracted by personal issues and other projects. This is a real problem for entrepreneurial minded founders who love to embrace new ideas and try new things.

How to protect yourself: Set clear goals and focus on them. Experimentation is good, but don't use it to justify your distractions. Instruct your team to hold you accountable just as you hold them accountable.

12. Discord in the Team or Investors

Unresolved problems with your co-founder, other people on your team, or investors (or parent company if you're building a startup within a larger organization) can poison the work environment and cripple your progress and results. A toxic setting can even bleed into customer relationships.

How to protect yourself: Ideally, you should only work with people you get along with. But if problems come up, resolve them immediately.

13. Poor Pivot Execution

Sometimes you have to pivot. You have to change your product, model, or customer. But it's not that simple, and some startups get it wrong. Instead of making a *calculated* pivot, they make a frantic, emotional decision.

How to protect yourself: Run some experiments before you pivot. Make sure you understand what the pivot looks like and how to achieve sustainability after the change. Ideally, get some new customers on the model before you commit resources to the pivot.

14. Lack of Passion

Yes, it's important to solve a problem with your product and service. But if you don't care about the product, the industry, and your customer, you won't have the passion needed to get you through tough days. Even good ideas can fail if the founders aren't emotionally invested.

How to protect yourself: Don't build a startup unless you enjoy the domain.

15. Failed Geographical Expansion

Some failed startups blame their inability to expand into new geographical locations as the cause of their failure. If your company pairs services and users in physical locations, breaking into a new area is like building a brand-new user base all over again. If you can't grow quickly enough in a new place to satisfy both types of customers, you could damage your own reputation.

How to protect yourself: Take your time expanding into new areas. You might need to create a unique penetration plan for each geographical reason based on the users in those areas.

16. No Investor Interest

8% of failed startups say they couldn't find investors interested in their product. While it's possible the founders just couldn't get themselves in front of the right investor who would fall in love with the company, there's probably a deeper reasoning to that that's explained elsewhere on the list. For instance, maybe founders couldn't find interest because the product was mistimed or they didn't have a network to reach out to.

How to protect yourself: Meet investors early, even if you don't need their money right away. Ask them for honest feedback so you can figure out if there's something they don't like about your company as early as possible.

17. Legal Challenges

All industries involve *some* regulation, but some are more heavily regulated than others. Many startups build a non-compliant product that doesn't attract any attention… until they start making money or onboarding customers who *do* care about compliance. Then they have to rework the product or their service to follow regulations *and* shoulder the cost of lawyers.

How to protect yourself: Understand your legal challenges *before* you build your product.

18. Didn't Use Network

Oddly, some failed startups claim that even though they *have* a network, they just didn't utilize it properly.

How to protect yourself: There's not much to say here. Communicate with your network regularly. Post online, trade emails, and offer help. Use everyone you know: Other founders, mentors, and most importantly, your investors. They're a resource who would prefer to help you rather than let the company fail.

19. Burnout

Personal burnout is a real problem, especially if you're financially invested in your startup or otherwise attached to its success. If you are your team never get a break, it won't be long before you stop caring at all.

How to protect yourself: Work-life balance is an important concept. Even though you desperately want your startup to succeed, it's important for everyone on your team to work at a healthy pace with regular time off.

20. Failure to Pivot

7% of dead startups cite failing to pivot away from bad decisions as the reason for their failure. In some cases they failed to change models, target a new customer, get out of a bad agreement, or fire a bad hire.

How to protect yourself: If you find yourself in a bad arrangement, cut your losses and make whatever changes you need. Don't lose yourself in the sunk cost fallacy. Whatever you've spent has already been spent. Don't marry yourself to bad ideas.

Now that you know the most common reasons startups fail, examine your own company and team for signs of pending failure. Take the preventative steps listed above to keep your business and dream alive.