Why Startups Fail

innosphere

March 2022 – Rainforest Innovations

University of New Mexico

Many startups fail, and there has been a massive effort over the past two decades to understand why…

Why do you think that startups fail?

And technology startups in particular?

The Business Reasons Why Startups Fail

Ran Out of Cash/
Failed to Raise New Capital

38%

Cash burn not aligning with early sales traction and fundraising.

No Market Need

35%

Markets don't support the technology and products.

Out-Competed

20%

Unknown or known competitors capture market share and create barriers.

Flawed Business Model

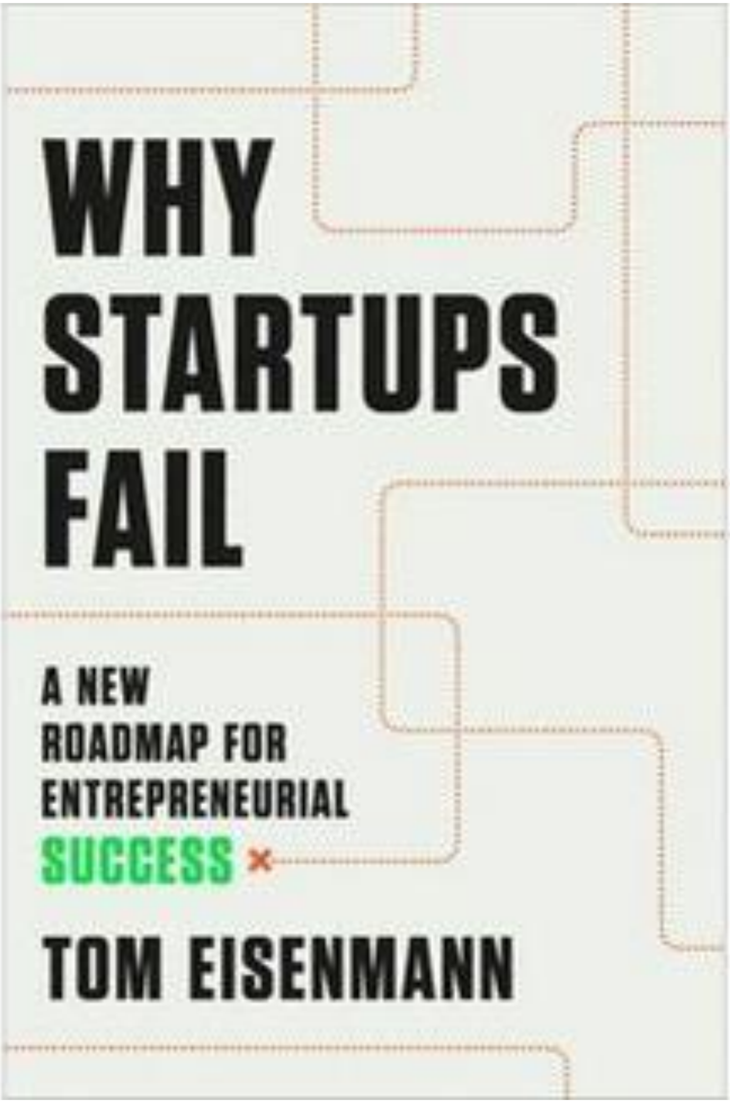
19%

Failiting to find ways to make money while you scale.

2021 CB Insights

In addition to technology risk, your business faces the risk of failing due to addressable factors

Addressing these risk factors is the focus of the new client onboarding



Focus on early-stage failure modes

Failure Mode: Good Idea, Bad Bedfellows

- Startups are more likely to be vulnerable to this risk factor when they pursue opportunities that involve 1) complex operations requiring tight coordination of specialists work 2) inventory of physical goods 3) large capital requirements

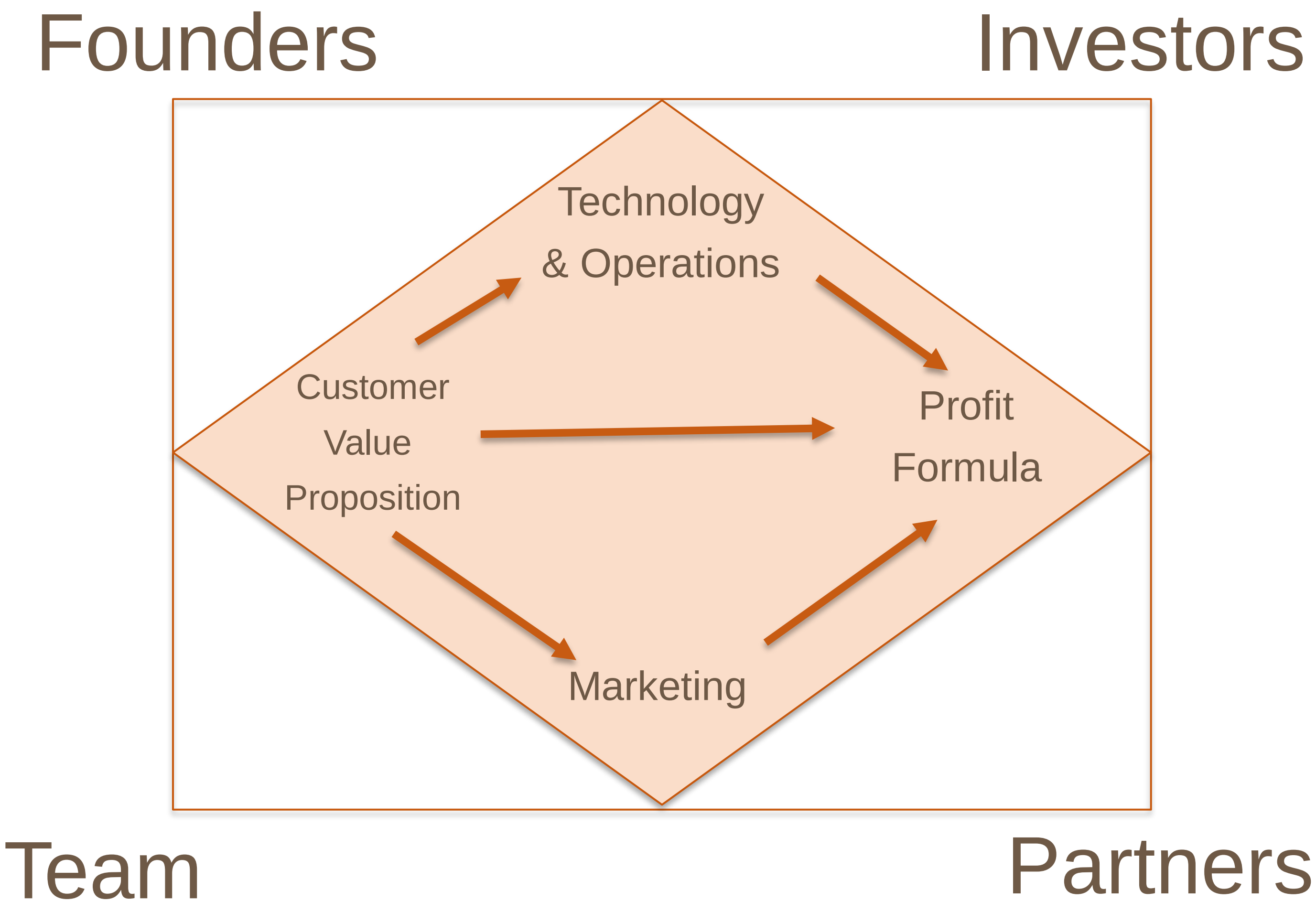
Failure Mode: False Starts

- Startups that are struggling or have shut down conducted significantly less up-front customer research, were less likely to complete rigorous MVP tests, and were less likely to say they had a very deep understanding of customer needs.

Failure Mode: False Positives

- Founders need to conduct early customer research that exposes differences between early adopters and mainstream customers. You should consider the real possibility that the broader market may not respond in the same way.

The Diamond-and-Square Framework



How do you know if you have identified an attractive opportunity and determined what resources are required to capitalize on it?

The Diamond-and-Square Framework

- The framework's diamond breaks down the startup's **opportunity** into four parts: its customer value proposition, technology and operations, marketing, and profit formula.
- The diamond is framed by a square whose corners denote the ventures **key resource providers**: its founders, other team members, outside investors, and strategic partners.

Opportunity Elements

Customer Value Proposition

- An early-stage startup's customer value proposition is without question the most important of the four opportunity elements.
  - Needs must be <u>strong and differentiation</u> is crucial.
  - Sustaining this <u>differentiation</u> is essential.
    - <u>Sustained differentiation</u> comes in two types, proprietary assets and business model attributes.

Technology & Operations

- To survive, a startup must be able to fulfill its value promise, which includes inventing the product, building it, physically delivering it and servicing after it is sold.
  - Poor execution on any of these tasks can kill a venture.

Marketing

- A new venture must make potential customers aware of its offering.
  - A key decision is deciding on marketing plans and marketing spend.
  - Balance product focus with marketing/sales focus.

Profit Formula

- A startups profit formula is its plan for making money.
  - The profit formula is highly driven by the Customer Value Proposition, Technology & Operations, and Marketing.
  - This largely determines who the startup serves and in what numbers (i.e. market size), how it will price its product, how it will attract new customers, customer support, etc.

Resource Elements

Founders

- Founder fit has a decisive impact on the startup's outcome.
  - Hire for fit: industry expertise, functional expertise, and temperament (collaboration).

Team

- Balanced team hiring is essential. A weak team can stall out the venture’s progress.
  - Replacing weak team members is painful.
  - Hire slow, fire fast.

Investors

- Finding aligned early investors is essential.
  - Key decisions: when to raise? From whom? How much? At what cost? Control compromises?

Strategic Partners

- Poor partner choices rarely kill a startup, but poor choices can create big delays and setbacks.
  - For instance, build v. buy for software development?
  - Choosing the right channel partner, terms.

Group Discussion

- **Avoiding Failure Mode: Good Idea, Bad Bedfellows**
- Avoiding Failure Mode: False Starts
- Avoiding Failure Mode: False Positives

Group Discussion

- <u>Avoiding Failure Mode: Good Idea, Bad Bedfellows</u>
  - Add diverse co-founder
  - Attach advisors rapidly
  - Conduct more thorough/complete research
  - Don’t allow co-CEOs
  - Aligned investors and early corporate partners

Group Discussion

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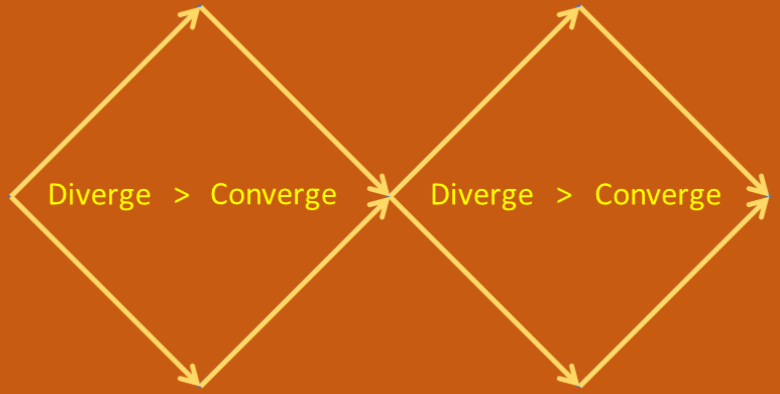
Group Discussion

- Avoiding Failure Mode: False Starts

Double-Diamond Design

Problem Definition

Solution Development



- Customer Interviews
- Ethnography
- Focus Groups
- User Testing of Rivals
- Journey Mapping

- Customer Surveys
- Competitor Analysis
- Market Sizing
- Personas

- Structured Ideation
- Prototyping
- Prototype Testing

- MVP Testing
- Positioning Statement

Group Discussion

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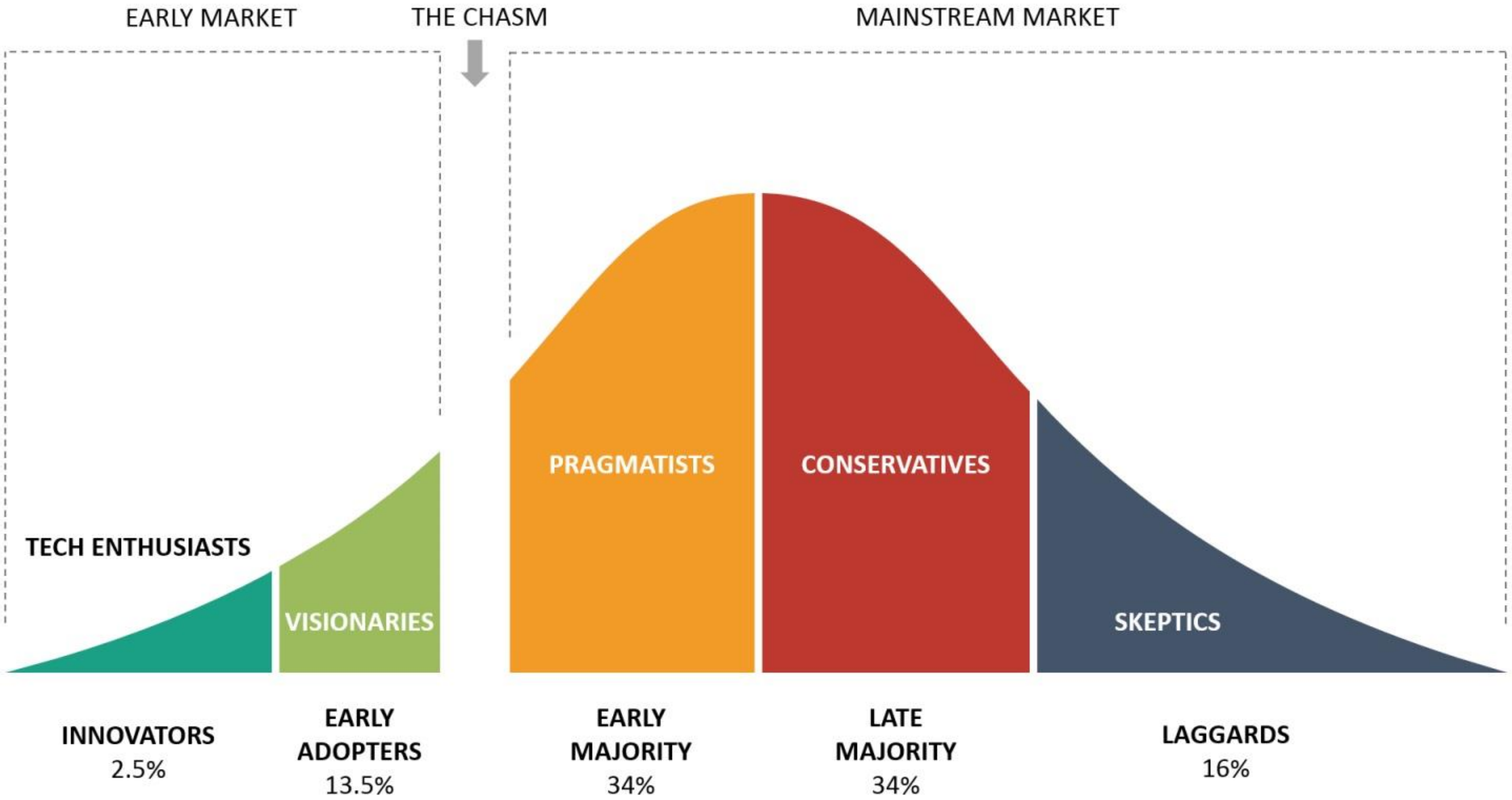
- **Avoiding Failure Mode: False Positives**

Group Discussion

- Avoiding Failure Mode: False Positives
  - Customer discovery research: target early adopters and mainstream
  - Product strategy options
  - Tailor to early adopters then migrate to mainstream
  - Launch two products with different positioning


EARLY MARKET
THE CHASM
MAINSTREAM MARKET
TECH ENTHUSIASTS
VISIONARIES
PRAGMATISTS
CONSERVATIVES
SKEPTICS
INNOVATORS
2.5%
EARLY ADOPTERS
13.5%
EARLY MAJORITY
34%
LATE MAJORITY
34%
LAGGARDS
16%

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