Entrepreneurship Essentials
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Lecture - 05
Why Start-ups Fail

Hello and welcome. Today we are going to discuss as to Why Start-ups Fail, the objective is to understand why they fail. So, that we can take pre-emptive action or we become educated. So, that we do not repeat the same mistakes that many of the start ups committed.

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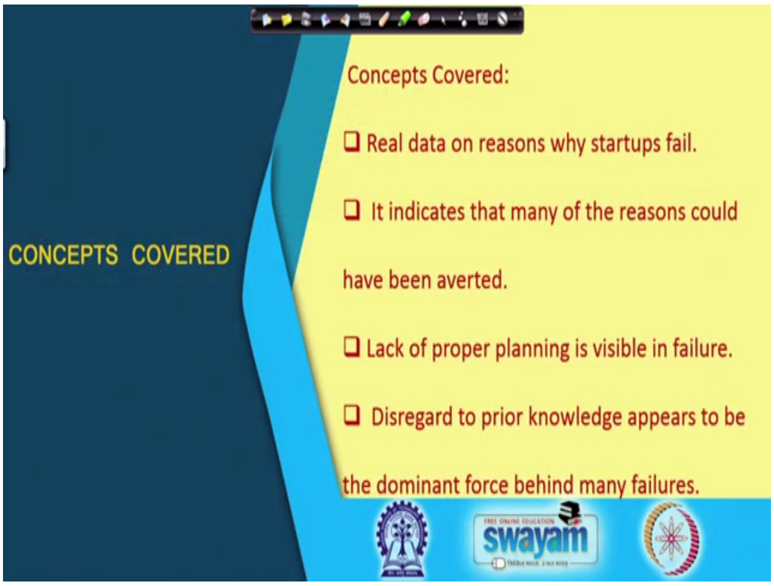

So, today's discussion will be based on some data that is that available, the data clearly indicates that many of the reasons for why start up fail start ups fail can be averted; so that there may be more success stories. It looks like there are lack of planning, which is visible in failed stories. There is clear sign that majority of them disregard the prior knowledge, the things that are actually happening around us people tend to not learn from mistakes that other people have committed. So, if we know oprah in beforehand as to why start up fail, we can actually avert them

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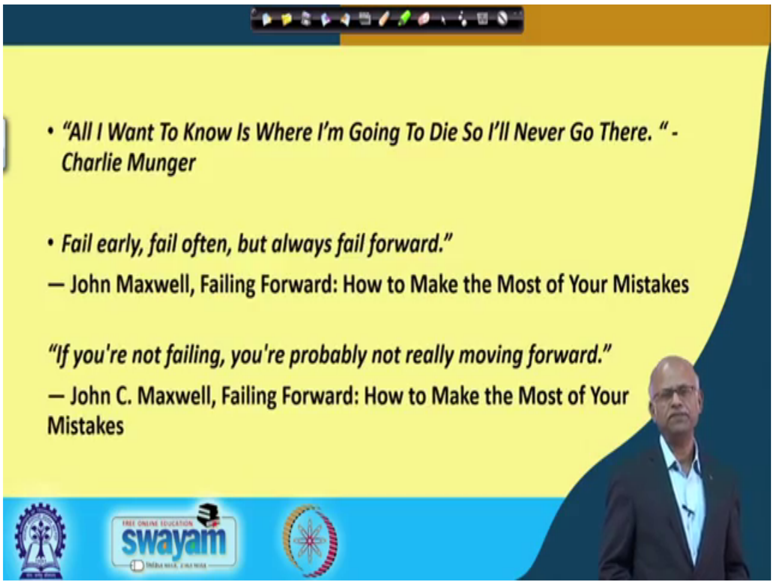

Charlie Munger in this regard has quoted very appropriately he said "All I want to know is where I am going to die so, I will never go there". So, there will be no death. So, that is what it means that if you know why start up fails, then we will not do that meaning we would not take that action. This is a very nice quotation, very appropriate by John Maxwell, "Fail early, fail often, but always fail forward".

Fail forward means learn from your mistake, learn from your failures and then move forward. We will talk about fail forward in later slides, but this is this statement itself is today's theme major theme. Another quotation by John Maxwell; "If you are not failing, probably you are not really moving forward".

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So, if you are actually doing something there is always a chance that we will fail. A manager once said that I never failed and further inquiry indicated that he never did anything so; obviously, if somebody does nothing there is no chance of failure.

I suggest that you visit cbinsights dot com the link that is displayed right now, to see some of the post mortem or call them obituaries written by failed founders. So, these are firsthand accounts of their failure.

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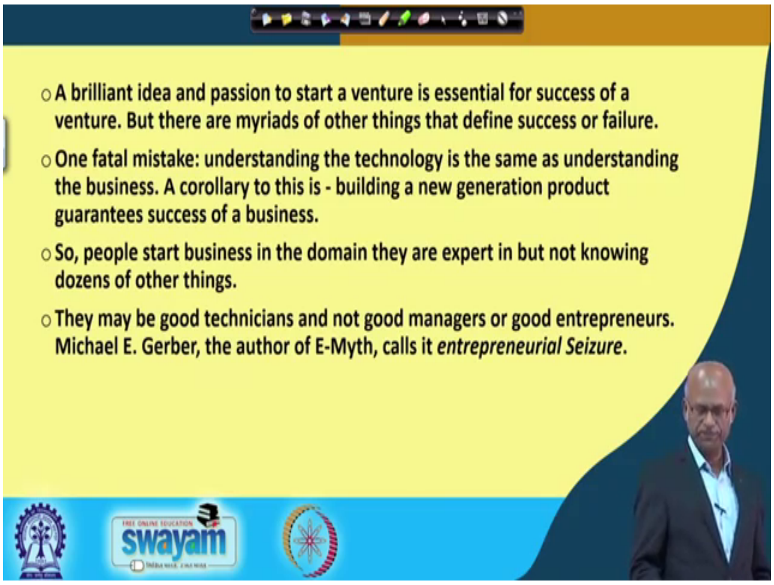

So, learn them take them with bit of pinch of salt, but definitely learning something knowing something from the founders themselves who failed would make us smarter. Some repetition, but nevertheless is very contextual. A brilliant idea and passion to start a venture is definitely essential for success, but then there are myriads of other reasons that drive success or failure we have to be careful about them.

One fatal mistake is to think that technology or the product, if you have a cutting edge technology and the product is built based on that success is guaranteed, which is kind of a seminal mistake. So, people start many people start business thinking that they have sufficient knowledge in the domain and they can really build a futuristic product, and there is no reason why people will not buy them, this that does not happen. Michael Gerber is a author of E-Myth called this entrepreneurial seizure.

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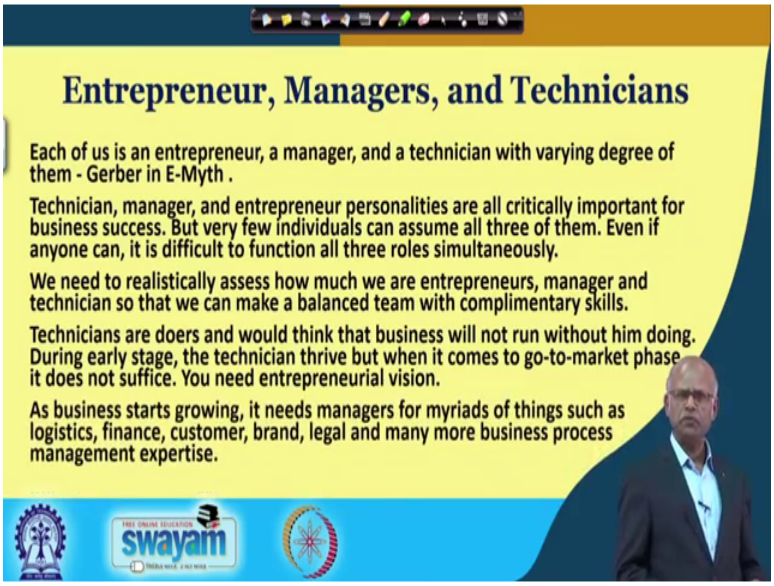

Entrepreneur, manager and technician we discussed that in my earlier lectures, but cannot avoid to I would like to overemphasize this point. Any successful venture needs three personalities an entrepreneur, a manager and a technician and we all assume those characters or those personalities of varying degree. There is hardly anybody there might be, but there are very few with all these personalities in a balanced manner.

But even if there would be someone if he or she would try to use that skill for all the operations, it is very difficult to keep the balance and give attention to all as spheres of business. So, if somebody tries that he or she is sure to fail, they have to a hire appropriate people at appropriate time. We need to realistically assess as to how much we give on which sphere of the business and then hire people for a balanced for a balanced kind of skill sets. We move forward these are already discussed in my previous slides.

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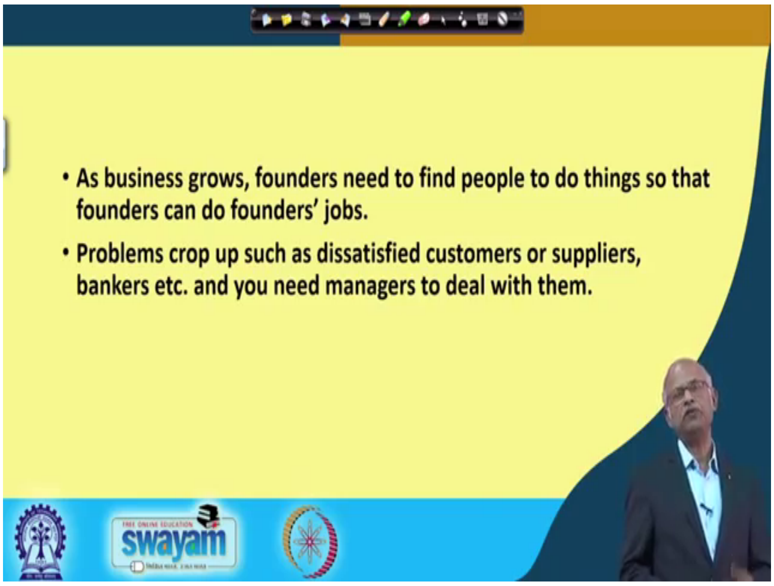

As business grows founders need to find people to do things just and overemphasize. So, problem normally problems crop up from multifarious direction both from inside and from outside. So, managers means you need to hire people and empower them to take care of all of them.

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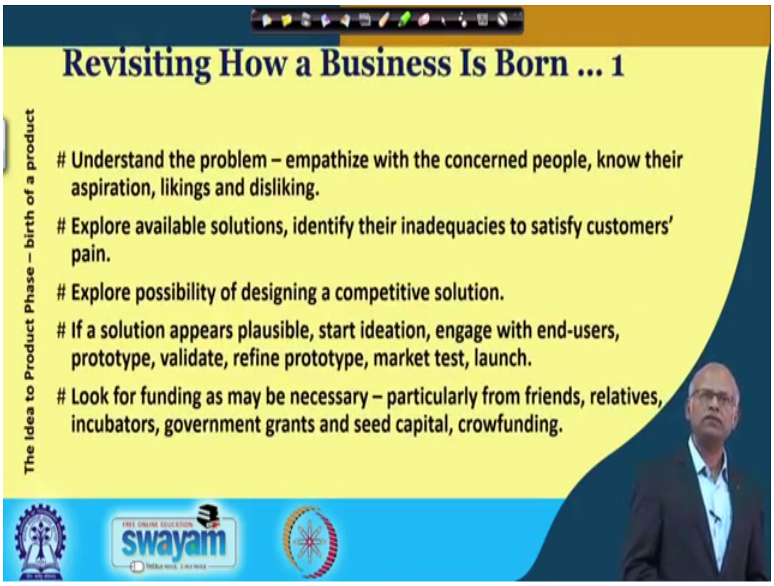

Some of the slides moving forward will be a repetition, but I have placed them with little bit of a different flavour they are with me, but go through them. How to start a start up is the theme of maybe next 5-6 slides. So, you start with understanding a problem, then empathize with your customer to understand and define the problem better, come up with a solution, see competition or solution provided by the competitors.

So, think whether you can give a better solution, which is a better product market fit and then start prototyping, get your prototype validated off and on; so, that you are on track so, that you are with the customer you should never focus your attention from the customer. Maybe you have the first interview and during empathizing, but does not mean that you can now develop the product in absence of the customer. So, take customers view all the while.

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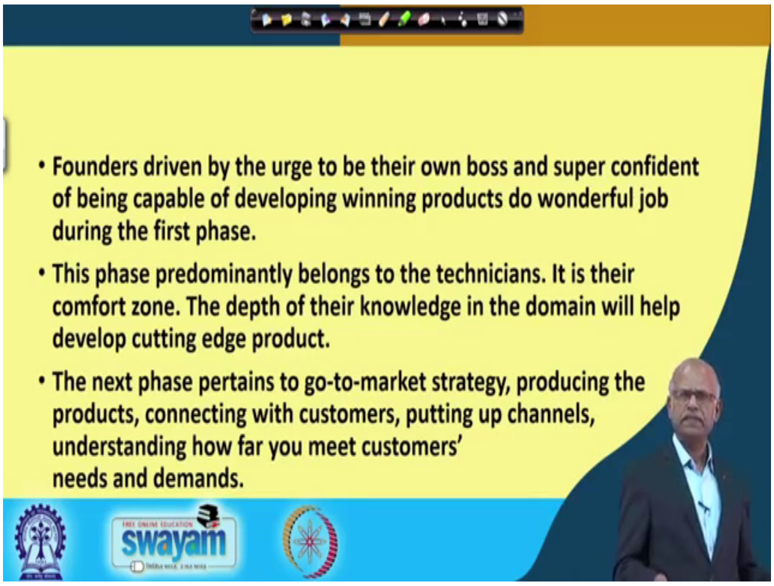

Then founders are driven by the urge to be their own boss this is some background concept. So, normally they definitely can develop winning products, because of their technological depth. This phase predominantly is belongs to the technician because they can make a difference in their product in development of the product.

The next phase after the product is kind of ready, it is a go to market strategy now you decide about channel, about making the customers aware. And, then how you are going to reach the product to them, how you are going to make profit, pricing, costing etcetera etcetera.

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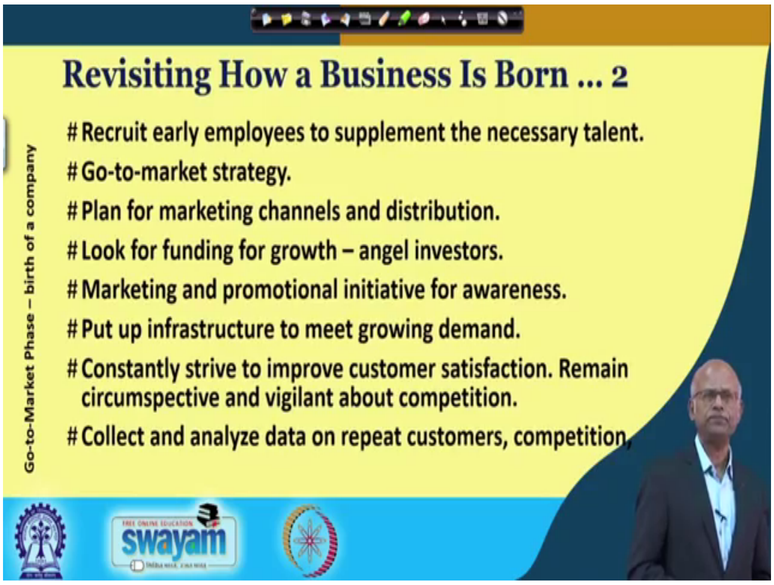

So, you have to recruit employees because now you have to operate the business you have to manufacture, if you are offering some product. So, plan the go to market strategy plan for marketing channel look for funding, because now you have to put infrastructure for manufacturing. So, continuously take customer feedback.

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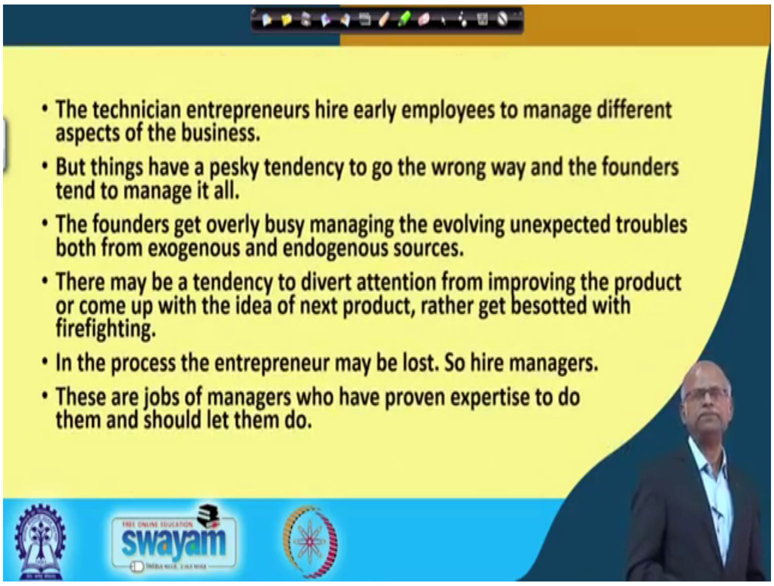

The technician entrepreneur should hire early employees maybe they will hire some technicians to help them, but things have a pesky tendency to go wrong. So, just hiring technician may not help. So, this is a time when you need to manage your business process, business process management is the issue. So, you really need to hire managers at this level at this point.

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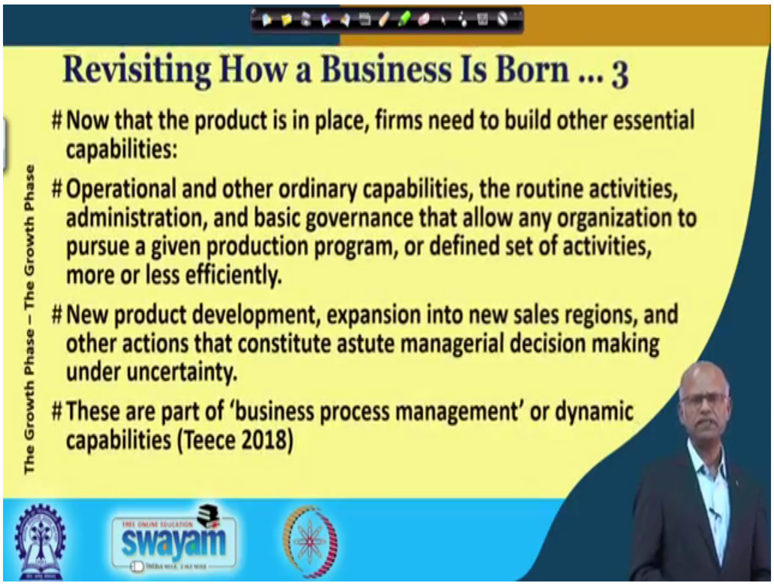

Now, that the product is in place, firms need to build other essential capabilities. Normally scientific articles make a distinction between early capabilities or ordinary capabilities and dynamic capabilities. Early capabilities are just managing your business processes, you have you need to manage the routine activities, your administration your basic governance that allow an organization to pursue a given product production program or defined set of activities more or less efficiently.

But once you are in the marketplace, market is constantly evolving. So, you need to keep phase with the changing market changing, test of the customer and changing competition because competitors are always trying to kind of supersede you. So, they will come up with new technology, new product, new experience to the customer you have to continuously match with them if not keep yourself ahead of them.

So, now it is a dynamic capabilities; you are into new sales region you have to decide which of your product is giving you better margin or which of the products are being liked by the customer more so, that you can grow your business in that line. So, all these decisions or your expertise to make decision decisions is your dynamic capabilities.

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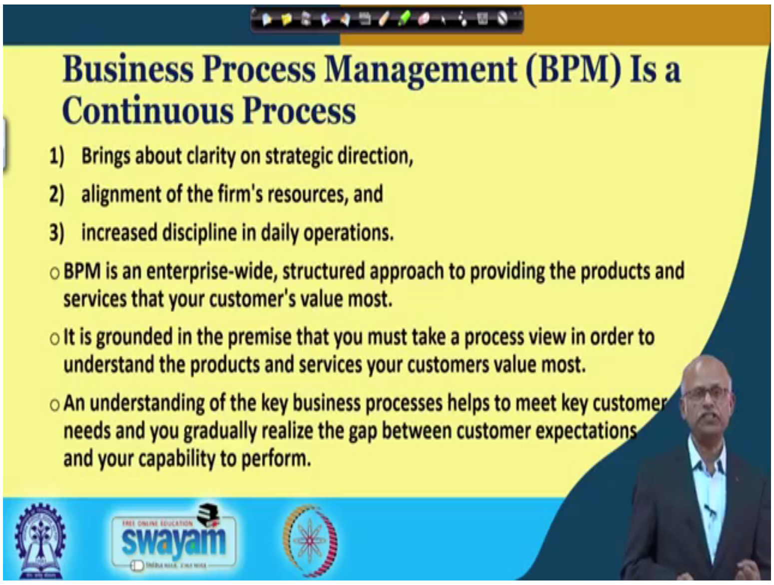

I have used the term business process management which perhaps is a new phrase. So, here is an explanation. It is about bringing clarity on a strategic direction, alignment of the firms resource and then increase discipline in daily operation. So, these the whole business management involves business process management. It is an enterprise void structured approach to providing the product and services that your customers value most. It is grounded on the premise that you must take process view in order to understand the products and services your customer value the most.

An understanding of the key business process helps to meet key customers need and you gradually realize the gap between customers expectation and your capability to perform. So, you refine your keep your expert your knowledge and then your strategy to meet customers expectation better.

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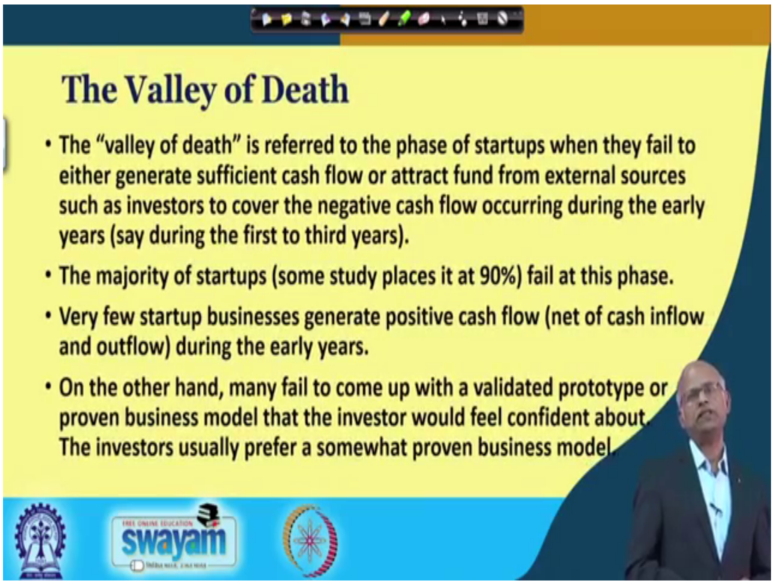

Here is another new item the valley of death may be familiar with its a term that is applicable to majority of the start ups, particularly those who failed. Value of death is a phase of start up when particular start ups start up is incapable of meeting their cash flow, meaning gradually their cash inflow is found to be shorter smaller compared to their cash outflow.

So, they start burning more and more cash and if a company is burning cash, and if they do not have ready resources or pre-emptively they have planned for investment or burrow or any others from any other source a time will come when they will not be able to pay salary or rent and it’s a sure shot death because nobody is going to spare them.

If their employees not employees are not getting the salary on the last day, if founders tell them that take the salary after a day; this is a just 1 days delay is a clear signal that things are not going well. So, your best employees will immediately look for opportunities elsewhere. So, within very short time you will find that you are if anybody is there with you, they are the people that you list as desire to be with you and those who are your jewels are no longer there. So, it is kind of eventually it is a death and this is referred to as valley of death. Here is a graphical representation of that.

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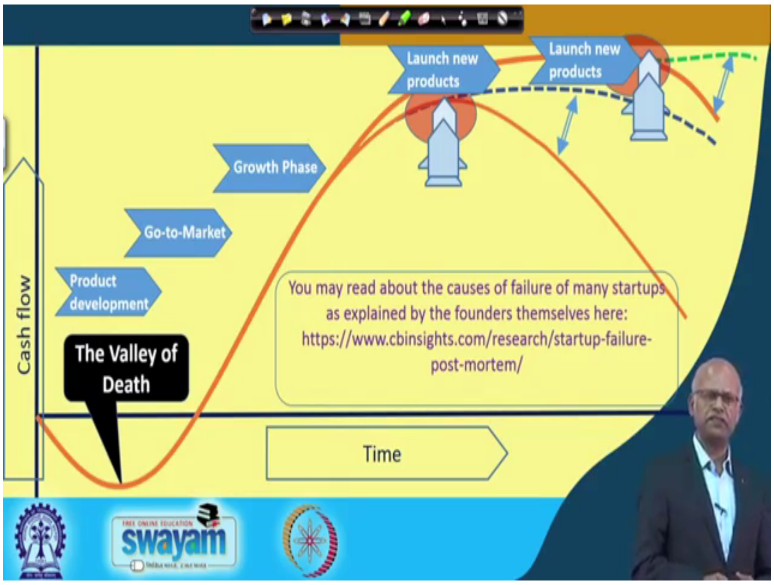

So, initially start up actually burns cash. So, gradually the cash flow is negative. So, whenever the cash flow is negative they try to arrange funds from friends relatives or any other sources possible; particularly at a time when the product is almost product is validated by customers, they try to arrange fund from investors particularly angel investor, and if they are capable of arranging the fund, then this they go to market with their product and cash flow.

Even though there is negative cash flow, but gradually the gap is narrowed down and eventually there is a positive cash flow. But if the investors are not investing money if the product is not promising enough then there is no way to go for cash and result is obvious.

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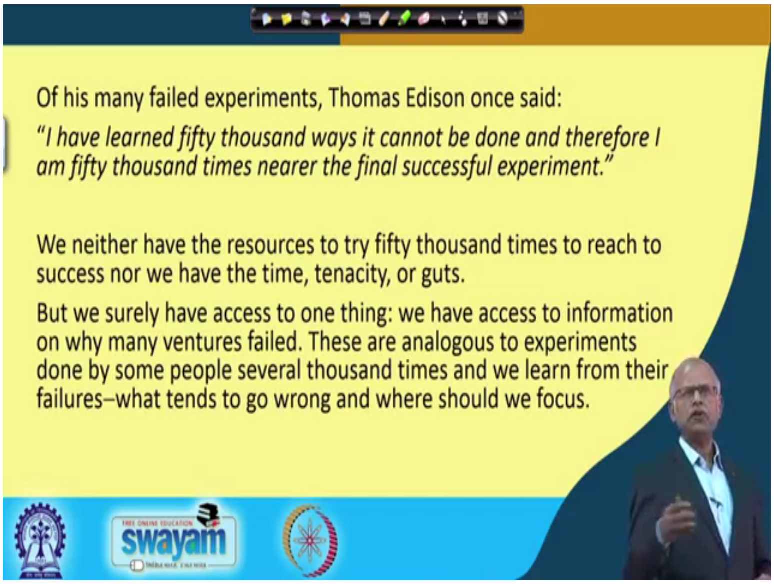

Thomas Alva Edison is greatest innovator I said at the beginning, and the technologies of the innovations that he brought to the to the people at last are still prevalent and without many of them life would be very difficult even today. So, he famously said I have learned fifty thousand ways it cannot be done and therefore, I am fifty thousand times nearer to the final successful experiment meaning if I have to fail fifty thousand plus n number of times to be successful.

If I have already failed fifty thousand times and now n number of times behind the success only n number of times because fifty thousand is gone. But then we do not have the resources or the guts to fail fifty thousand times. What we have is we have access to information as to why start up fail. So, we can learn from them rather than experiencing how to why people fail or how to fail and all that, we can take a clue take a cue we can studied the reasons why people fail and then move forward.

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So, today I am going to show you the reasons why start up fail. Start ups fail even after raising lot of fund. In fact, 70 percent of start up take companies usually fail 20 months after raising fast financing. So, there is no guarantee that after raising money they can they can survive.

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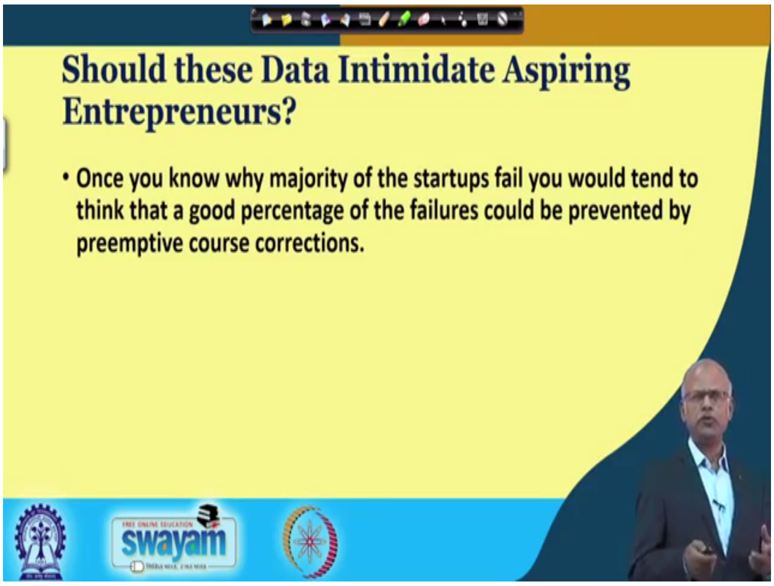

Should they this data intermediate aspiring entrepreneurs definitely not because this data also indicate that you can learn a lot from failed entrepreneurs or you can learn a lot that failed entrepreneurs did not learn.

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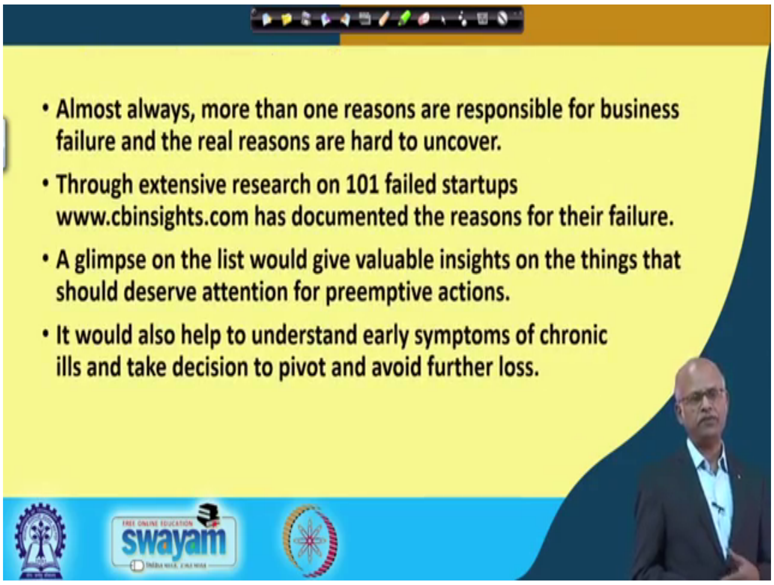

So, focus on learning, focus on their causes of the failure and move forward. Through extensive research of 101 failed start ups cbinsights has documented the reasons for the failure. A glimpse on this list would clearly corroborate this philosophy that it could be averted let us move forward.

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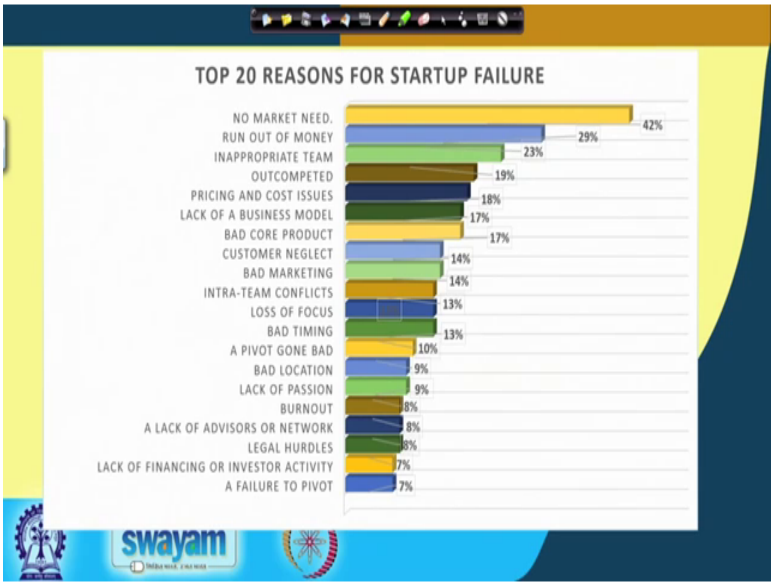

These are the twenty reasons, but I will not elaborate on them we will discuss very few of them, but the link is already there see cbinsights dotcom I should I advise that you should visit this website and learn the causes of failure of all these 20 there are many more reasons.

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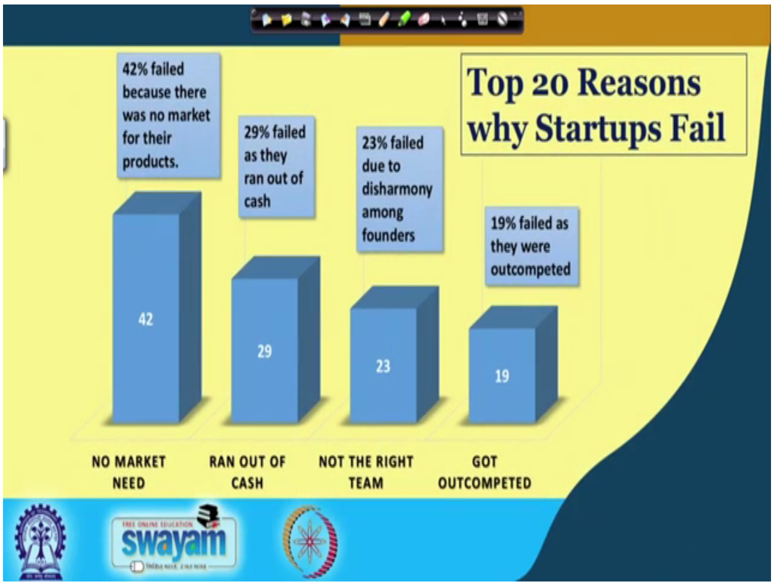

Remember one thing this total percentage some of the percentage it's not 100 its much more than 100 because for single company failure of single company can be attributed to several reasons. But, then these are the primary ones means this 20 or the primary ones which can be identified. Here I have the top 4 top 4 causes of failure.

The first one is that 42 percent of the companies failed, because their product was not accepted by the market. Imagine the developed product and the market did not accept their product so; obviously, they should have gone to the market before investing so, much money and then understand why that market is going to accept that. 29 percent failed because they ran out of money almost the same story like the first one, but then maybe they failed slightly earlier compared to the first category.

Then there are disharmony among teams or the fourth causes is that they got out competed. This reason also can be subsumed in the three other categories that that are before them, but then as I said any company failed for multiple number of reasons.

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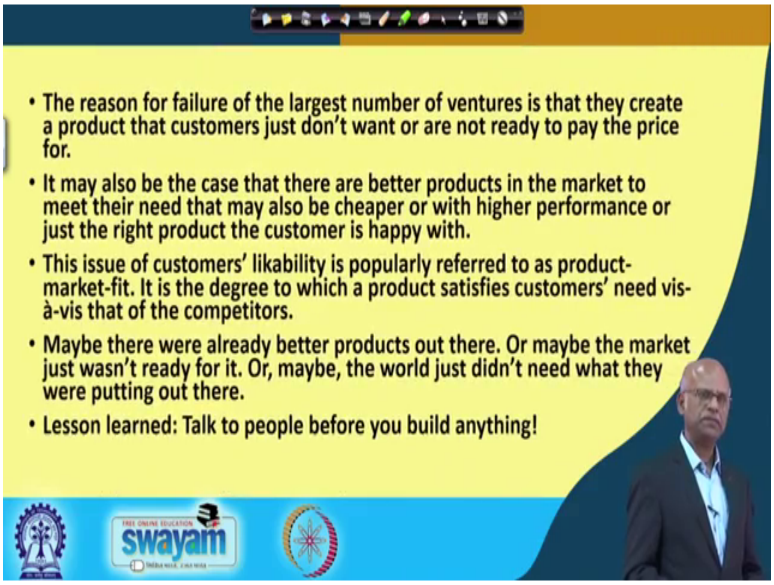

Now, the first reason as I said is because of because is the there was a product there was a lack of product market fit. Maybe these companies came up with a with a product that was not better than competitors product. Maybe this is because of a because customer did not like their product.

The likeability is actually referred to product market fit, which is a fit between customers requirement or needs the most means they must have characteristic features of a product perhaps, they did not have them or they had them. But, then they could not compete in terms of price with competitors it is kind of a trade off between the efficacy of the product and price and the liking of the customers. Lesson learned talk to the people before you build anything before you will invest any money.

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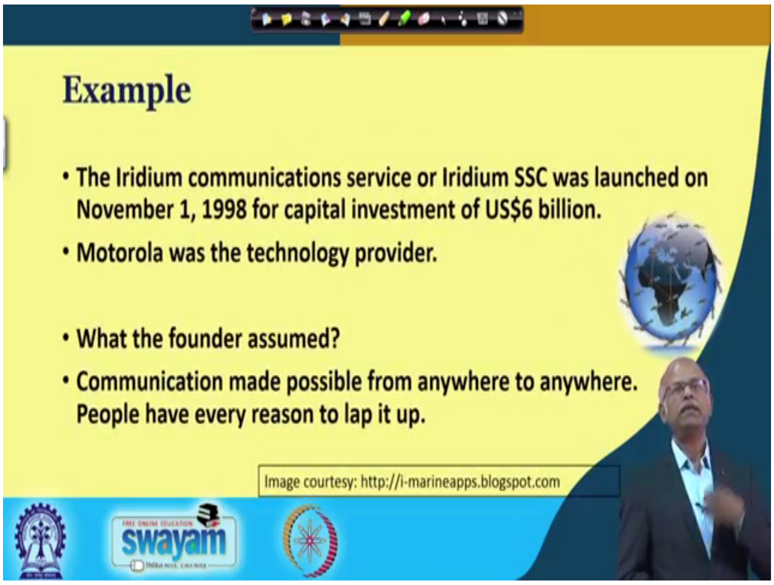

There is a wonderful example here. Iridium communication why I chose this example is like these people who started these companies are the corporate whose who of that time. They are they are the top people at that point of time in the world they started a company called Iridium SSC. Iridium communication service is known at present it has launched in 1998 for a capital investment of 6 billion dollar which is something like close to 50,000 crore rupees Motorola was behind this project. And what the founder, what the company was actually?

They launched 66 satellite, they covered the entire globe with these 66 satellites. The philosophy was that communication should be possible between anybody and at any place to anybody at any other place. Meaning suppose you are somewhere in a in a jungle where there is no network as of now, and somebody who may be in Africa or maybe Brazil or any other place maybe Antarctica, communication should be available at any point of time just by the press of a button. That is the philosophy in 98 when the mobile network or the cell phone network was not so, much prevalent. So, the hypothesis or was that communication is an important part of life and there is no reason why customer will not accept this product or the service product of the handset service was this communication.

So, anybody if they would have asked anybody means any management graduate or management kind of executives, perhaps they would have told them that why not its a wonderful thing. So, it should actually customer should accept it, but then there are other issues that that evaded the attention of the founders or whatever market survey they did or they did not sure. But look at 6 billion dollar rupees was invested for putting this infrastructure for making communication on demand.

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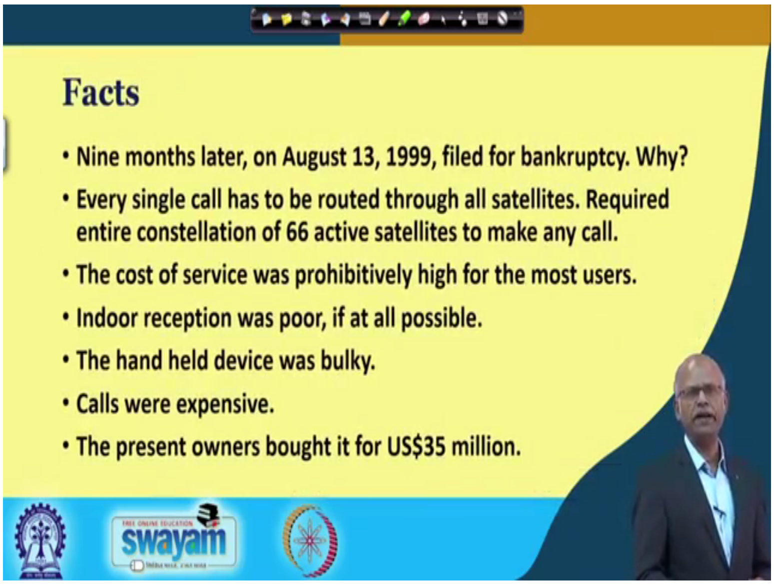

Nine months later on August 13 99, they filed for bankruptcy why? Any single call suppose you want to call from Kharagpur to Kharagpur this call would be routed through all 66 satellites. So, all 66 satellite has to be up and running to make any single call that was adding to cost and that was giving problem because all the time all the all the communication network was not awake or whatever the reason. The cost of service was prohibitively high, single cost would be very very high particularly the handset cost was enormously high and then it was kind of a very jumbo kind of size.

So, this was not like the cell phone of today, it was a big huge box. So, wherever you go you have to carry that box with the battery and those days lithium and battery was not there. So, you have a kind of a lead acid battery, huge and bulky. So, customer actually did not like it at all. So, they could not sell the turnover has additionally poor and then you take the phone inside in indoor no signal. So, utility was highly restricted. So, eventually the company which was built on an investment of 66 billion dollar were sold for 35 billion dollar in the next year in 1999 through bankruptcy; bankruptcy whatever through court it was sold for 35 million dollar only ok.

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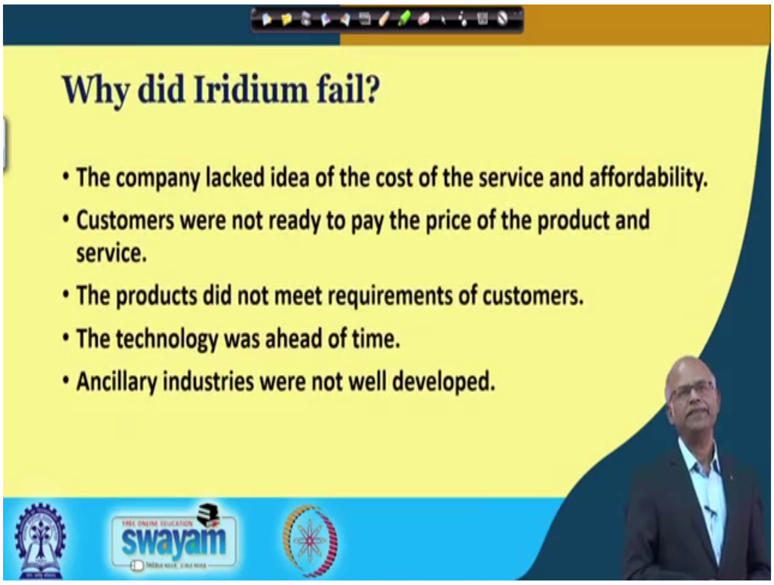

Why iridium fails? Obvious as I said the product did not meet customers requirement, the technology was ahead of time. Imagine that similar network will similar 66 satellite will be available to reliance Jio, what they can do? Of course, now launching 66 satellite will be perhaps slightly less costly than 66 then 6 billion dollar whatever the technology was ahead of time. Then ancillary industries were not well developed meaning if they have to run a business across the globe they need ancillaries all across the world.

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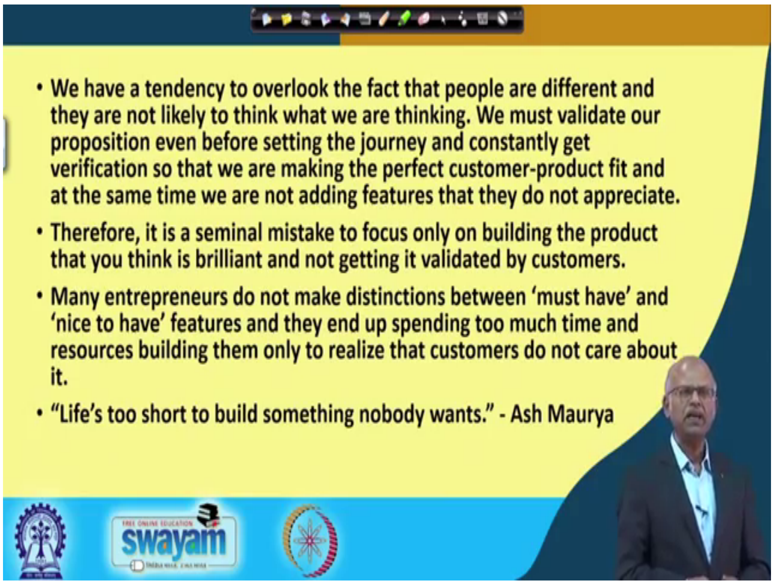

So, what do what do we learn actually? Even iridium, they had a tendency to overlook fact that people are different everybody is different and if we think like people are like up what I think is right people will also think is right is wrong; people have different likings there they have different priorities they have everything is different.

So, we should not presume that if we build something and if it appears to be a wonderful brilliant product its, it may not be that.

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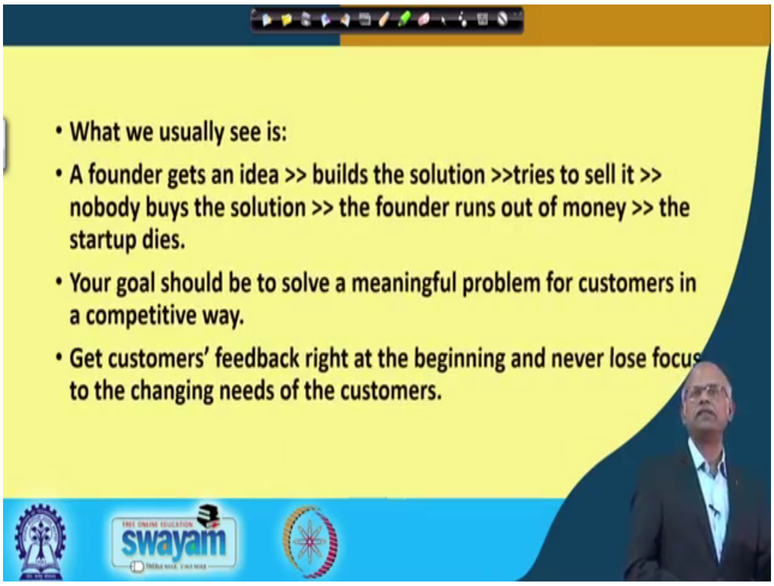

Normally what we see: when we encounter student or first generation entrepreneur thinking or dreaming of a project. What they do is they get an idea, build the solution, tries to sell it, cannot sell it, then close the shutter. So, customer feedback is essential from the very early stage.

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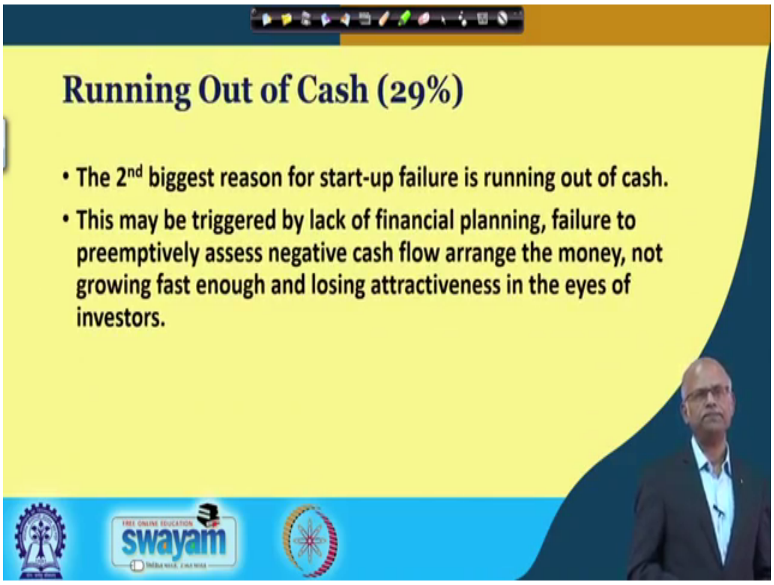

Second reason for start up failure is running out of cash, that happens because of not planning well. So, one has to be financially savvy. So, that they understand what how much they are earning and they take pre-emptive action meaning they approach to the investor that our cash flow is going to be we are going to a move we are going to end our total cash available on swan so, date. So, at least 3 months ahead they arrange some investment from some source.

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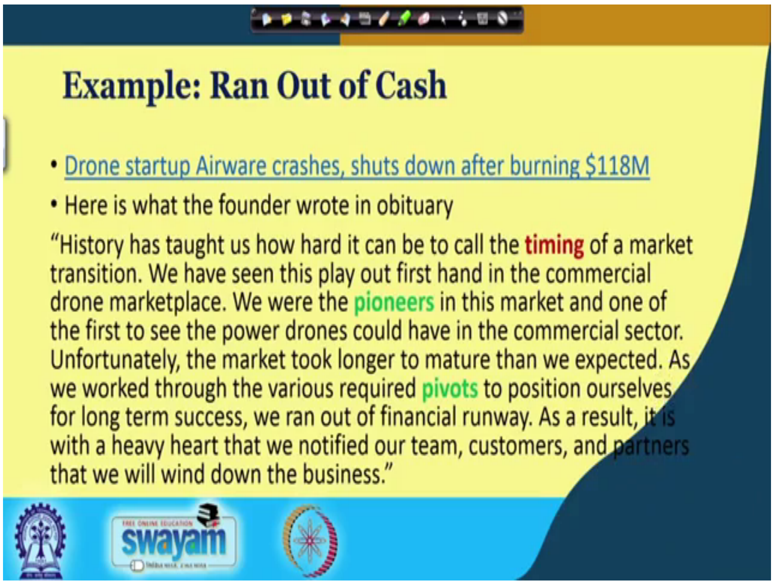

Running out of cash this is a wonderful example, this happened I think in 2018 itself. Drone start up Airware crashes shuts down after burning 118 million dollar of cash. Drone is a cutting edge technology, it is a futuristic technology in any company receiving 118 million dollar must have developed breakthrough innovation and then they could not sustain. So, you read this story read it from here and from elsewhere.

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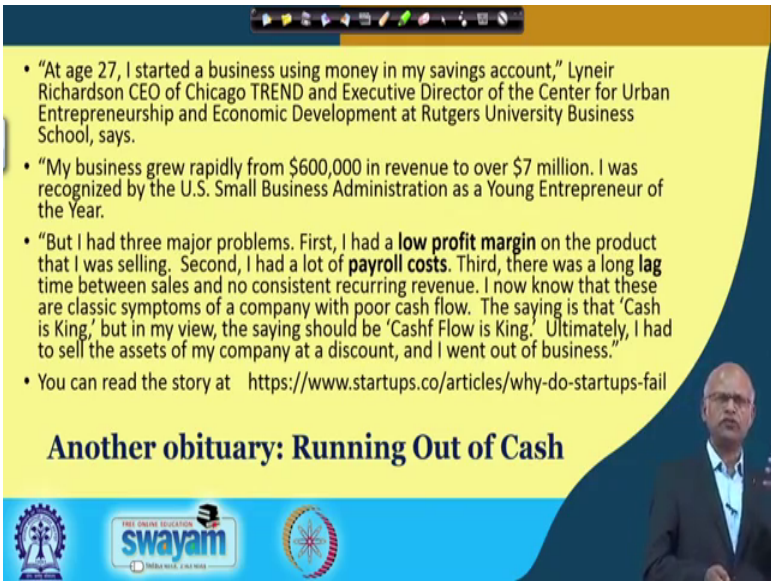

Another running out of cash story I will not read them, where the whole full story is here. So, I would recommend that you read from here.

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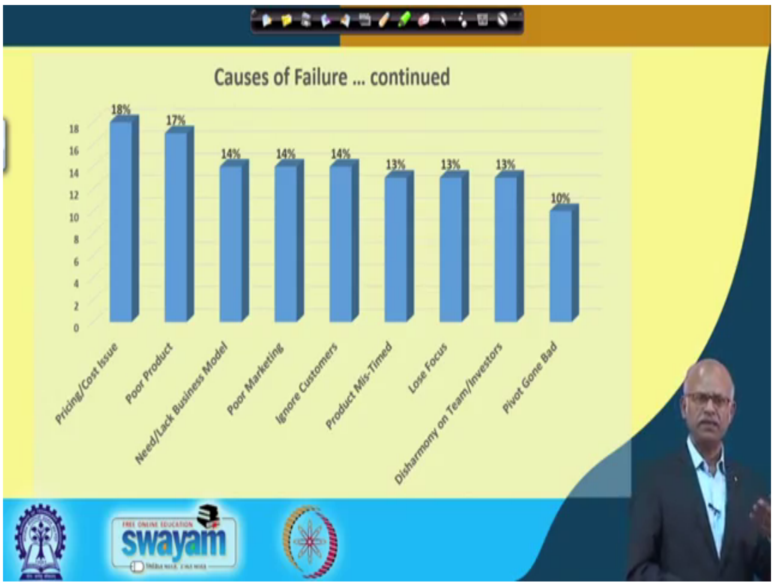

So, other reasons you should really explore from cbinsight, all the reasons have been explained there in half an hour time is really difficult to cover all of them.

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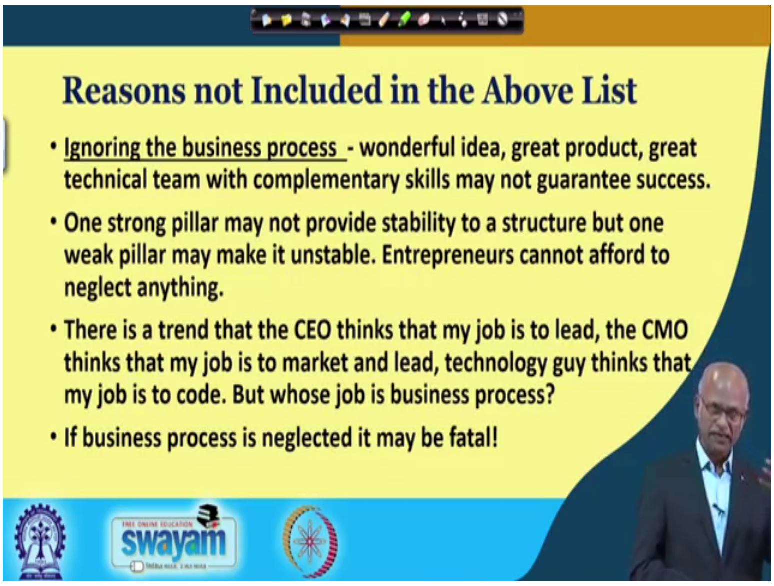

Then there are several other reasons which were which are not covered in this cbinsight 20 list top 20 list one of them is ignoring business process. I started explaining about business process ignoring business process meaning that I developed the product. But, then I ignore the whole process of executing, the executing the business and then reaching out to the customer, understanding them and refine etcetera etcetera. Then back office management everything together is a business process management.

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Ignoring them is another reason why many people many businesses has fail. I will not spend time I am already at the end of the time.

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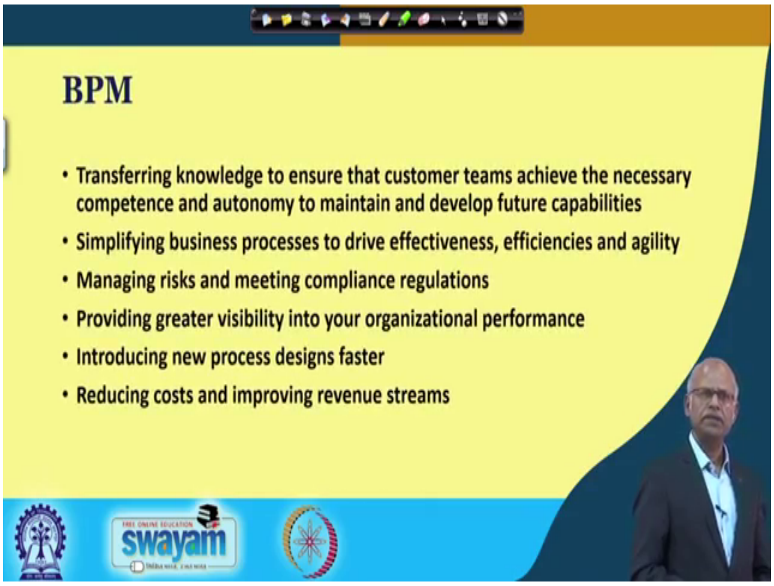

So, this is another slide on business process management, I would recommend that you read them.

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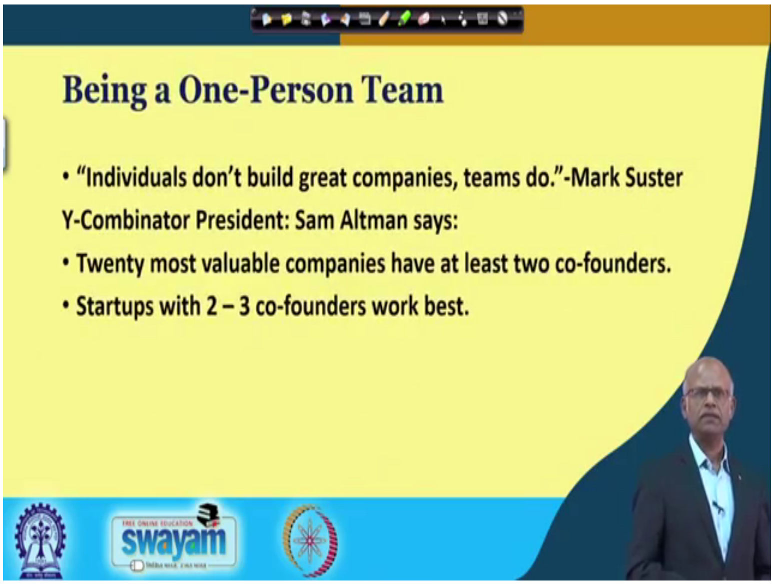

Another reason why company phase being a one person team. From Y-Combinator Sam Altman they have they have delivered lectures at Stanford business school, I will I will share the reference later. In one of the lectures Sam Altman said that out of all successful companies I think 20 or so, 20 most valuable companies at least there are two cofounders, none of them are single loan founder they call loan genius, but all of them have 2 or more than 2 cofounders that is clear indication.

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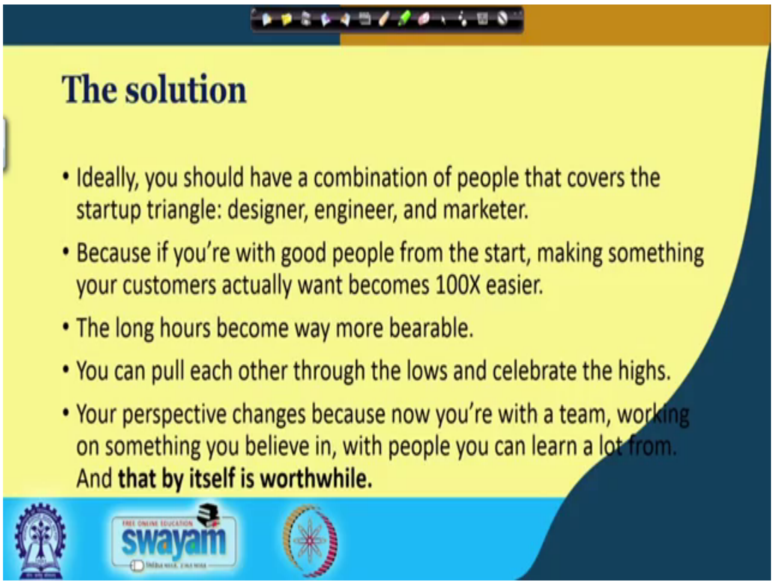

So, one has to really look for cofounders with balanced skill, complementary skills.

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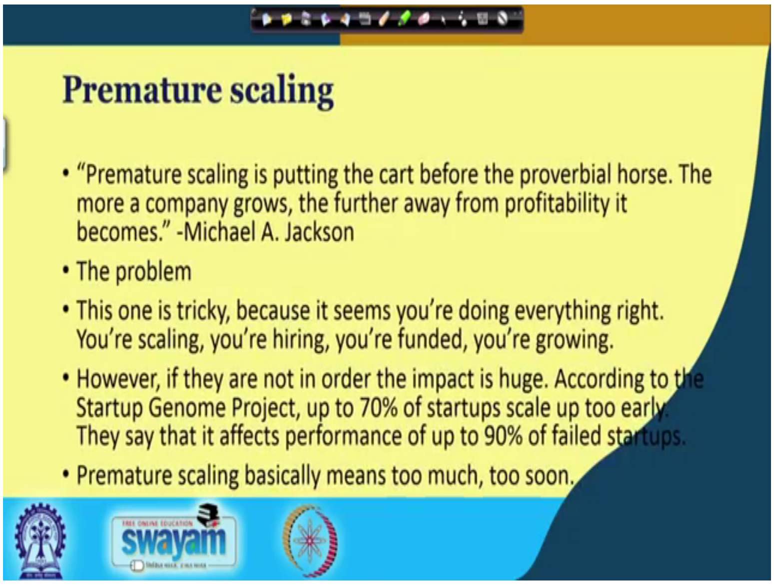

Then another reason is premature scaling entrepreneurs are so, very enthusiastic and passionate. So, they have a tendency to scale too quickly and then not being able to manage; manage the phase and then manage the business process also and then many of them run out of cash. So, they have to really plan before scaling.

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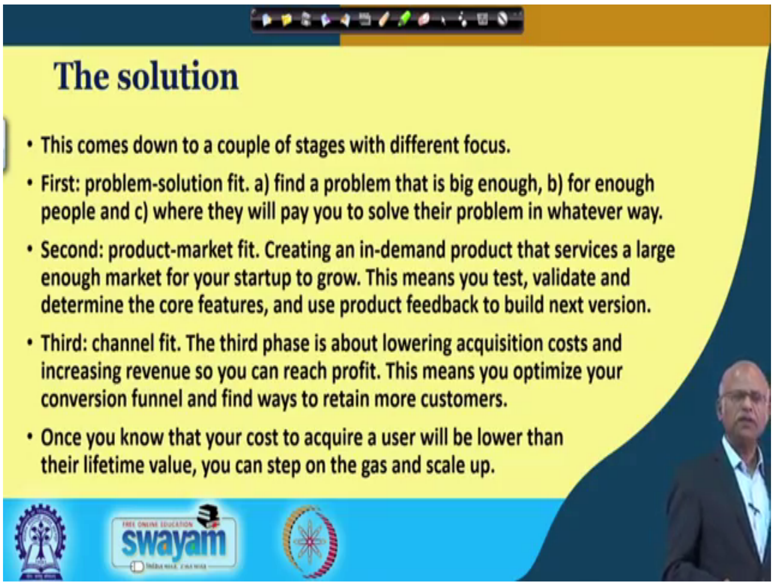

Read them it is very textual I kept the text this slide text heavy, because I wanted you to study them thoroughly.

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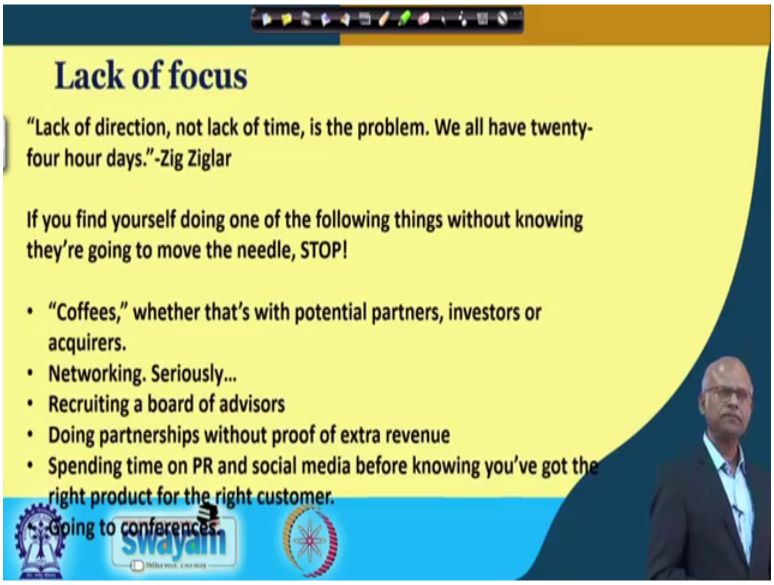

Lack of focus is another reason.

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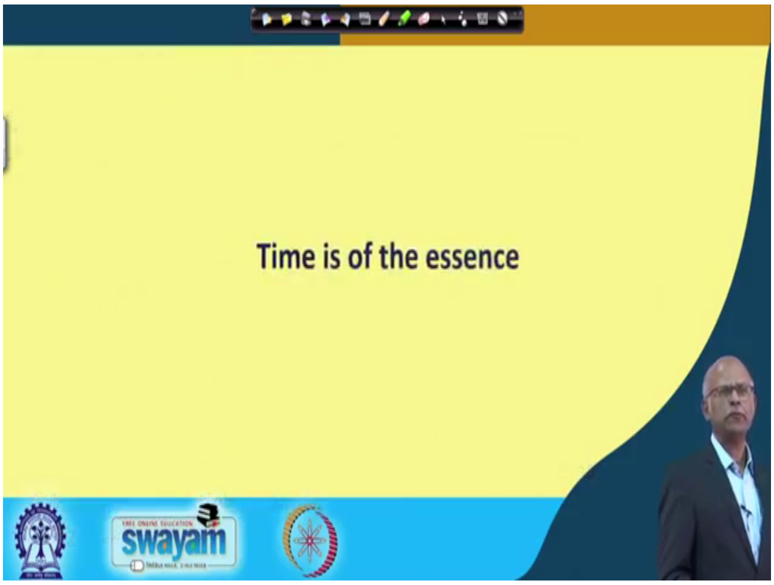

Time is of essence for anything particularly for start up initially time is very very important.

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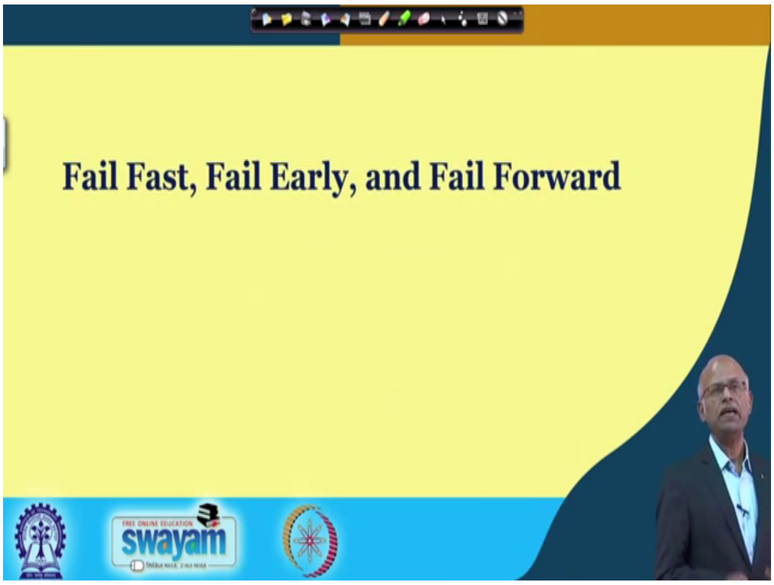

And that is why one should try to if one has to fail, then fail fast fail early and fail forward, what is fail forward?

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Fail forward is failing and learning from them. This is directly copied from the book written by Maxwell. So, I have the reference at the bottom and bottom means at the end of the slides.

So, you should read this, if you have a chance you should read this book, it is a wonderful book. So, when people fail backward; they blame others, they repeat the same mistake, they become frustrated and then eventually they quit. Failing forward means, they take responsibility that yes I had some mistake, I committed mistake I am not going to commit the same mistake. So, they move forward they persevere and eventually they become successful that is the philosophy of that slide that whole thing.

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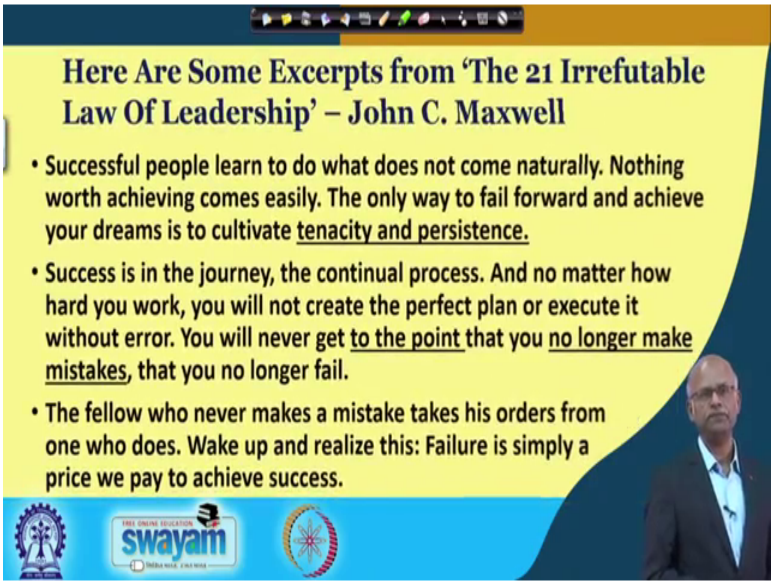

Here are some more excerpts from the book 'The 21 Irrefutable Law of Leadership by John C. Maxwell. Maxwell is a wonderful writer of leadership, I will share more of his leadership suggestion; I will someday I will share the all 21 laws of leaderships maybe, but you should read them.

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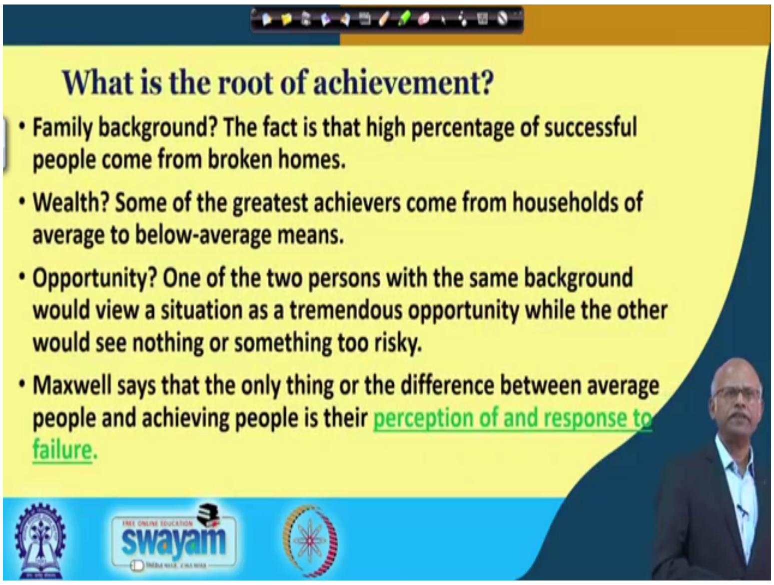

So, Maxwell himself actually differentiates achievers from non achievers. And he points this out this fact he brings out this fact. Family background never not always plays significant role for anybody to achieve to become an achiever. The fact is that high percentage of successful people comes from broken homes wealth some of the greatest achievers come from households of average to below average means.

Opportunity you show one opportunity to many 10 different peoples, 10 different people will say 10 different things. Some of them will say I do not see any opportunity at all, some will say this is a great opportunity some will say this is too risky. So, definitely opportunity is not the differentiator. So as Maxwell says the difference or the differentiator is a perception of and the response to failures, there is the differentiator.

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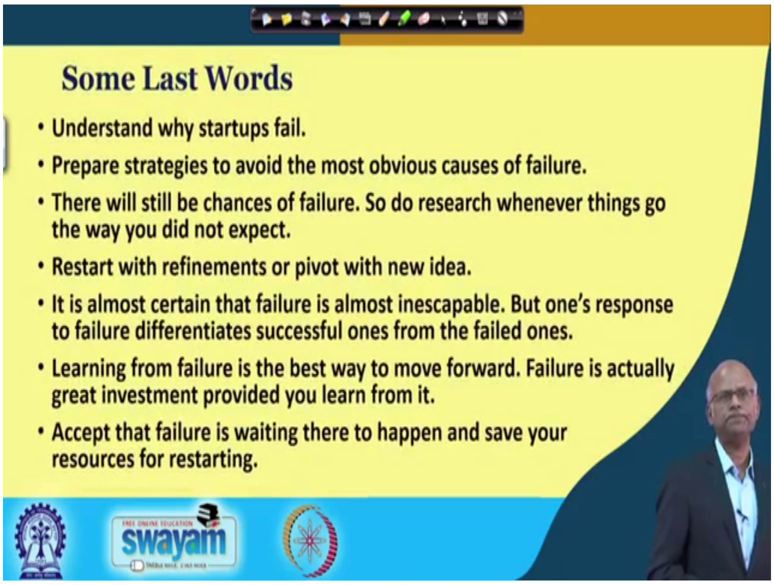

Some last words and you can read them I will like to sign off.

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These are some of the references it's not completely decipherable, but I wish you can see them we will share them as extra document.

Thank you very much.