10

COMMON STARTUP FLAWS LEADING TO AN EARLY DEMISE

BY MARTIN ZWILLING

Based on my experience as a mentor and an entrepreneur, if you fail on your first startup, you are about average. That's not bad, but who wants to be average? Every young entrepreneur knows implicitly that startup success is a long, hard road. Statistics show that the failure rate for new startups within the first 5 years is higher than 50 percent. How can you improve your odds?

Of course, a real entrepreneur always takes a failure as a milestone on the road to success. They count on learning from their mistakes, and use the experience to move to the next idea. But why not learn as well from the mistakes of others, without suffering their cost, time, and pain? In that context, I offer you my list of ten top startup failure causes, seen over and over again:

1 NO WRITTEN PLAN.

Don't believe the old urban legend that a business plan isn't worth the effort. The discipline of writing down a plan is the best way to make sure you actually understand how to transform your idea into a business. Take heed of the words of an old country song, "if you don't know where you're going, you might end up somewhere else."

2 BUSINESS MODEL DOESN'T MAKE MONEY.

Even a non-profit has to generate revenue (or donations) to offset operating costs. If your product is free, or you lose money on every one, it's hard to make it up in volume. You may have the solution to the world hunger problem, but if your customers have no money, your business won't last long.

3 IDEA HAS LIMITED BUSINESS OPPORTUNITY.

Not every good idea is a good business. Just because you passionately believe that your technology is great, and everyone needs it, doesn't mean that everyone will buy it. There is no substitute for market research, written by domain experts, to supplement your informal poll of friends and family.

4 EXECUTION SKILLS ARE WEAK.

When young entrepreneurs come to me with that "million dollar idea," I have to tell them that an idea alone is really worth nothing. It's all about the execution. If you are not comfortable making hard decisions, taking risk, and taking full responsibility, you won't do well in this role. Remember, the buck always stops with you.

5 THE SPACE IS TOO CROWDED ALREADY.

Having no competitors is a red flag (may mean no market), but finding ten or more with a simple Google search means this may be a crowded space. Remember that sleeping giants do wake up if you show traction, so don't assume that Microsoft or Proctor & Gamble are too big and slow for you to worry about.

6 NO INTELLECTUAL PROPERTY.

If you expect to seek investors, or you expect to have a sustainable competitive advantage against sleeping giants, you need to register all your patents, trademarks, copyrights, and trade secrets early. Intellectual property is also often the largest element of early-stage company valuations for professional investors.

7 INEXPERIENCED TEAM.

In reality, investors fund people, not ideas. They look for people with real experience in the business domain of the startup, and people with real experience running a startup. If this is your first time around, find a partner who has "been there and done that" to balance your passion and bring experience to the team.

8 RESOURCE REQUIREMENTS NOT UNDERSTOOD.

A major resource is cash funding, but other resources, such as industry contacts and access to marketing channels may be more important for certain products. Having too much cash, not managed wisely, can be just as devastating as too little cash. Don't quit your day job until new revenue is flowing.

9 TOO LITTLE FOCUS ON MARKETING.

Viral marketing and word-of-mouth are not enough these days to make your product and brand visible in the relentless onslaught of new media out there today. Even viral marketing costs real money and time. Without effective and innovative marketing across the range of media, you won't have a business.

10 GIVE UP TOO EASILY OR EARLY.

In my experience, the most common cause of startup failure is the entrepreneur just gets tired, gives up, and shuts down the company. Many successful entrepreneurs, like Steve Jobs and Thomas Edison, kept slugging away on their vision, despite setbacks, until they found the success they knew was possible.

Note that the lack of a university degree or MBA is not even in the list of common failure causes. In fact, we can all point to examples of successful entrepreneurs who dropped out of college, like Mark Zuckerberg and Bill Gates, but still went on to be way above average. The most important thing you can learn in school is how to learn.

The best entrepreneurs value "street smarts," in addition to "book smarts," to temper their passion with reality principles, like the ones listed here, to stay ahead of the crowd. It's good to say you never make the same mistake twice, but success is even sweeter the first time around with no mistakes. Go for it

About the Author

Martin is the CEO & Founder of Startup Professionals, Inc., a consultancy focused on assisting entrepreneurs with mentoring, business strategy and planning, and networking.

Martin for years has provided entrepreneurs with first-hand advice, mentoring and business plan assistance as a startup consultant. He has a unique combination of business and high-tech experience, and executive mentoring and connecting startups with potential investors, board members, and service providers.