5 REASONS BEHIND THE FAILURE OF THE STARTUPS

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Abstract: *This paper explores major causes of startup failures, and common barriers to business success. Although startups are new ventures with great entrepreneurial potential and rate of development, they fail because of weak business models, wrong positioning of products on the market, internal conflicts, lack of finance, and high competition. The paper examines literature and conducts interviews with startup owners and identify some of the problems that plague many start-ups including the focus on product development and the wrong revenue models that may not respond to market needs. Based on real life examples of Quibi, Theranos and Juicero, the study delivers key take-aways and suggested frameworks that focus on robust business models, identifying the right market, building the right team, financial management and developing competitive differentiation to improve startup outcomes.*

Key words: *Startup failure, case studies, startup challenges, business model, financial management, team composition, product-market fit.*

1. Introduction

Startups are the most popular type of businesses worldwide which characterized by innovation. As stated by Baldridge and Curry [1], startups are young companies which aimed producing products and services that are unique. Startups are created based on innovative ideas and provides alternative offers for consumers by focusing on filling the gaps and inefficiencies in the existing products. The main difference between startups and other businesses is that startups have innovative, scalable and fast growth potential despite having limited resources. When we think of successful startups, companies like Amazon, Google, Apple, Tesla, Uber, Spotify, Netflix come to mind. But they are just the tip of the iceberg because according to statistics, 90% of startups, or 9 out of every 10 startups, fail [2]. Startups like Theranos, Quibi, WeWork, Better Place are examples of businesses that were expected to be successful but failed [3].

The words business and risk always run together, and startups are no exception here. Every year lots of startups are established, but 20% of them collapsed in the year of their start, 30% of startups are closed within 2 years. Over time, the failure rate of startups increases, reaching 50% within 5 years and 70% within 10 years. Most of them cannot return the investments, some of them struggle with financial challenges. Additionally, the factors like poor financial management, no market need, flawed business model contribute to the failure of startups [4].

The article proposes several purposes and first of them is identifying and analyzing the main factors behind the failure of startups. Second, to identify the challenges which entrepreneurs face during the establishment process and running the startups. Last, to create comprehensive solution that helps entrepreneurs mitigate the risks in their startup journey.

2. Literature review

Startups fail — everyone knows that, and there are plenty of studies showing why. Based on Patel [5], 90% of the startups fail and this remains true in different countries such as the U.S., India, etc. Not uncommon among myriad authors is to delve deeper and posit a framework for understanding determinants, which have largely fallen into financial, behavioral or regulatory consideration.

Long term viability of a startup is critically dependent on presence of clear business model. Most start-ups fail because the business has an unsustainable model that lacks a coherent plan of how the firm will generate revenue continuously. This means that founders get obsessed with the product and fail to look at the financial model that would propel the company forwards. According to Neil Patel [5], they must develop a business model not only for initial customers, but also for consistent fidelity hence constant sales.

Another important aspect is comprehending what the market requires and how well a particular good belongs to those requirements. According to Etherington [6], some reasons indicated that startups fail is due to product creation that does not have marked revolve implying lack of real customer need that the product aims to solve. Tom Eisenmann [7] explain that failure to align products to requirements in target markets makes the products to be taken by few customers hence low sale and ultimately business closure.

Nothing is as important as having the right team when it comes to the growth of a startup. Kimberly Weisul [8] recognize that less poor team dynamics and different skills among the members are some of the causes of struggles in startups. Businesses need people with varying skills, and if the founders don’t find employees with these diverse skills, it becomes hard to tackle the various issues that come with attempting to grow a business. A similar observation is made by Bryce Conlan [9] shows that often internal conflict especially between co-founder leads to bad decisions for the business like, poor delegation and management of resources.

Get this, funding issues remain on top of the list of reasons why startups do not make it through. According to Sean Bryant [10] cash shortages or inability to secure enough capital is one of the biggest issues and one that is most frequently seen early on. According to Startup Genome [11], 29% of the startups indicate that the primary reason for their failure is lack of funds, usually caused by a poor cash flow and unforeseen costs. It is crucial for the number of startups to maneuver money supply efficiently, failure to which leads to closure.

Competition is one of the biggest threats to startups especially for those that are starting in an already saturated market. CB Insights [12] show that 19% of startups fail due to being outcompeted with better positioned, a better-funded competitor or a more established customer foundation. Startups have poor perception of the competition, which makes them duplicate their products and fail to develop new markets thus attract low patronage hence losing their market.

3. Research Methodology

To explore a detailed understanding of the fundamental causes of startup failures, this study used both primary and secondary data collection techniques. In this study, interviews were administered to the owners of start-ups in order to get their experiences with the subject. First interviewee was, a fast-food café proprietor called Jawid Jamali he opened a unique fast food café he offered some valuable tips about the five factors that influence startups in the restaurant business. And our second interviewee was Omar Azamov. He had a learning center which was using different innovative educational methods in learning languages. He was also an author of the book "5000 words in a month". This book was a best seller in Uzbekistan at those times.

Secondary Research was conducted with the help of collecting and evaluating data from some really reliable sources like Forbes, Harvard Business Review, CB Insights, and Statista. These sources provided important quantitative data and qualitative insights on problems present in most startups and industries. In this analysis, we found out that, among various matters that development nonprofit organizations face, there are certain patterns such as financial problems, problems of the market niche, and leadership-related issues. In combination, these methods offered a moderating mechanism where real-life data collected from startup owners and researched based startup literature was reviewed, in an attempt to determine the factors that lead to success and failure of startups.

4. Research Findings

The following describes our findings based on combined primary and secondary research, to understand what makes startups fail. In combining interviews with startup owners and secondary data analysis of the existing literature, we observed that these startups fail for five principal reasons including weak business model, lack customer/market fit, poor management, financial challenges or tense competition. Information below was gathered from our interviews. Which we will discuss further.

Primary research finding: (Interviews)

1. The start up`s success was a direct result of meeting a clear and urgent need which was student`s incapability to effectively learn new English vocabulary.

2. The entrepreneur was forced to rely on individual orders for the books due to the insufficient financial issues that hindered the company`s effective scaling up.

3. A threat to expansion was apparent when the market was oversupplied with pirated copies of the book., which reduced the sales.

4. In its early phases, the startup had a committed and driven team that performed well and had no significant internal problems.

Secondary research findings:

One of the key findings is that far too often, startups lack viable and consistent business models. Long-term revenue is what many other startups fail to find out the answer for. This is where many entrepreneurs go wrong because too often they spend all of their time in creation mode, with the product and forget to create a business model that generates revenue. Startups, as explained by Neil Patel [5], who need to well go beyond their early customers and make plans for revenue streams which would guarantee continuance.

The most well-known example in the real world is Quibi, a short-form streaming service that launched with huge fanfare in 2020 but closed just six months later. Quibi got $1.75 billion in funding, but the business model didn't make sense for how consumers behave. However, the company could not manage to generate enough revenue as it was heavily reliant on its bite-sized content distributed over mobile phones and hence did not attract a considerable subscribing audience. This answer was reinforced when I read that Jeffrey Katzenberg, the founder of Quibi apologized saying: “it is likely we misjudged” and they overestimated demand for a service like Quibi.

Product-Market Mismatch — In both the literature and interviews, a common theme was that startups frequently deliver products which are different from what customers need. TechCrunch [6] reported that most startups develop products which cannot be sold to a sufficiently large market, resulting in poor customer acquisition and causing them to close their businesses.

Startup called Juicero, a startup that developed an expensive juice extractor which could only function properly using pre-sold bags filled with fruits and vegetables. The product was a technological innovation, but did not fill an existing need in the market. The machine itself cost $400, and the juice packs were expensive — more than squeezing those same fruits by hand. As a consequence, Juicero went out of business in 2017 having consumed $120 million dollars of venture capital, most notably from Google Ventures.

Research also showed that startup team composition is paramount to a startup's success. As Kimberly Weisul [8] emphasizes, 'a large proportion of startups' shortcomings are a result of founder-team conflict and deficiencies in the skilled employees. All of the interviews made it clear that a balanced team with diverse skills is the key to surviving in all these layers that business development can grow into.

Financial issues are considered one of the top reasons startups fail, with cash-flow problems and near-impossible fund-raising only beginning to scratch at a much larger surface. As Sean Bryant [10] explained, inadequate funding and incompetence in finance are what causes startups to fail. Indeed, according CB Insights [12], “29% of startups fail because they end up running out of capital and no fuel to succeed in the long-run, very commonly through poor cash-flow management or unexpected costs.

Better Place, which was going to provide electric vehicles, failed to implement its electric car concept despite raising nearly $1 billion in 2007. Even with all those dollars, the company still went insolvent in 2013. Its business model revolved around developing a network of battery swapping stations for electric cars, it proved to be not financially viable with such high operational costs and lackluster consumer demand. This led to the company being in need of funding and failing to finance its venture correctly.

The market is a competitive one, with limited margins and few future prospects for the average startup in a given already-saturated sector. According to CB Insights [12], 19% of startups fail due competition. They are usually outcompeted by bigger companies with more money and experience or they enter a market that is over saturated, making it impossible for them to gain significant share in the competitive space. Competition might be the most confused issue for many startups, and it will drive lots of founders to build out products that are only equal partners with established players in a particular space without carving their own niche.

Competition is what brought one of the earliest social media startups, Friendster, to the downfall. Friendster, which launched in 2002 and quickly grew to millions of users only to later fall behind Facebook and MySpace. The lack of innovation and scale the rather new platform did not give it a chance to take on its competitor, thus losing users drastically. The company had stopped offering social networking by 2011 and relaunched as a gaming site before finally closing its doors.

5. Discussion

This study identifies the factors as attributable to startup failure based on theoretical reasoning and case examples. These factors will be analyzed in detail in this discussion with especial focus on their consequences for the entrepreneurs and on how they can influence these negative consequences. According to the interviewees, Omar

Azamov and Jawid Jamali highlight key factors that determine a startup`s success or failure, particularly in the restaurant and educational sectors. Despite working in different industries, both entrepreneurs encountered a similar set of issues and found that main reasons were the same, which will highlight common mistakes made by entrepreneurial startups.

Weak business model: It is evident from the analysis of the literature as well as the case studies such as Quibi the presence of a weak business model is one of the main causes of startup failure. Entrepreneurs adopt product-based thinking at the cost of creating viable sales-making structure. It is true that, every start-up requires innovation, but more importantly they need a clear and flexible business model. It is crucial for entrepreneurs to make sure their product is responding to a clear plan as to how they are going to make money from it and how it can be scaled. Based on Quibi's experience, startups must be wary of the trend and hype to support the market without confirming its existence.

Customer demand and market fit: Lack of understanding of the needs of the market as well as product offerings is a major mistake that brings many failures – and Juicero is not an exception. Initially, the startup invested its energy in innovativeness, but it did not offer the consumer a want. This highlights a key lesson: regardless of how unique or innovative it is, a product must fulfil a real demand. Startups should keep experimenting, iterating and validating the right market for their products in addition to having enough market share. Focusing on customer feedback as an important element and the company's ability to adjust its product could have helped avoid such failures.

Both Jawid and Omar emphasized the importance of market fit and customer demands knowledge. Jamali`s fast-food café debuted a new menu with an emphasis on regional palates, and the concept was well received among consumers. In a competitive industry, this illustrates how tailored offers give a competitive edge in grabbing a market opportunity that others might overlook. The book "5000 Words in a Month" also aims to meet the growing demand for English in Uzbekistan. This requirement was satisfied by his invention, which made vocabulary learning easier and more appropriate for students getting ready for test like the IELTS.

According to these examples, companies with goods or services that meet consumers' needs stand a good chance of becoming successful. One of the main reasons why many businesses fail is a lack of product-market fit, which may occur when entrepreneurs lose focus on many essential clients' demands due to a lack of market research and positioning tactics.

Team Composition: The case of Theranos also shows that a competent, well-rounded team should be employed. Lack of internal management and wrong decisions frustrate most startups, even with revolutionary concepts. New businesses need varied sets of talents and the founders need to realize the importance of hiring people that have different strengths and the establishment of responsible team culture. The problem is free communication channel and the early resolution of internal conflicts that can otherwise contribute to the failure.

Financial challenges: Another common problem that was frequently brought up was the financial barriers. The inability of most startups to obtain sufficient funding to produce in big quantities was one of the main problems listed by Azamov`s experience. He was only able to operate from individual orders since he could not afford to publish his book in large quantities, which hindered market expansion. Jawid also said that although it takes a lot of money to spend in fast-food business in order to get high-quality food ingredients and create standard, high-quality, customer-friendly interiors, the degree of profitability he encountered was minimal.

Also, Better Place faced with this problem. Even though it was accredited with the ability to source quite a good amount of funds, the firm could not make it due to high operating costs and poor cash flow. This shows the relevance of effective fiscal management and budgeting and shows that it is an ongoing process that has to be done in parallel with operations to check against arbitrarily and wasteful expenditures. The message that entrepreneurs should grasp is that is it not only possible they will get funding, but they must also be ready for additional expenses they did not consider and learn how to handle their assets properly. It is therefore important to have adequate financial strength in order to endure initial phase difficulties.

Competition: The Friendster story shows that intense competition pressures can overwhelm even pioneers in a given sector. Startups have to continue to be adaptable and responsive to competitive forces by continuously creating and seeking the right propositions. Awareness of the competition and positioning the business to do things differently or to do things better is vital if the business is to withstand competition. According to the research, future small business owners should not only aim at challenging industry competitors but seek for other avenues to add value to their products or services.

Such examples are Quibi, Juicero, Theranos, Better Place, Friendster, and many others, and they are all educational. These cases presented above make it clear that failure can happen at any stage, whether the start-up is funded, innovative and successful at the start or not. Many of these lessons should be considered as lessons for avoiding similar missteps and for raising the odds of achieving more sustainable success.

6. Conclusion and Recommendation

This study has identified five critical factors behind the failure of startups: weak business models, poor market-product fit, team problems, financing issues and competition. All of these factors, as highlighted by Quibi, Juicero, Theranos, Better

Place, and Friendster indicates that startups are not easy to manage. These results suggest that although most startups fail, many of the factors that lead to such failure can be offset with planning, analysis, and creativity.

During the discussion, some real-life scenarios exposed the fact that being innovative is crucial when it comes to the growth of a startup organization. However, this fact must go hand in hand with the formulation of sound business models besides managing the financial aspect of the business and analysis of the market. However, recruitment and selection of talented, and a diverse team, as well as the competition factor through innovation are other components that may help a startup to reduce its odds of failure. Thus, the first is the awareness of these segments as startups lacking an approach to these areas are closer while those who engage them can define successful strategies in extremely competitive industries.

Recommendations

To increase the likelihood of future success, the business must follow the creation of a strong and versatile business model that guarantees sustainable and continuous income generation. Products must meet customer needs as market statistics need to be captured over and over again to improve goods. Having a diversely skilled group is essential since it helps to better address the problems of startups.

Financial management is the other general consideration, the startups should always keep tabs on the financial operations, control on the expenses and efficiently utilize the funds. To stay competitive there has to be innovation and the ability to comprehend the market forces at play. Last but not least being able to learn from past failure or vice versa, modify strategies which are commonly made can also be effective. Hence by targeting these areas, startup firms will be well positioned throughout the long run.

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