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## Why Startups Fail and How to Avoid This Situation

### Abstract

Startup companies and initiatives are often suggested to be the most ambitious and prosperous projects in the modern business setting. In turn, the vast majority of studies and real-life examples have proved that most startups fail, indicating the necessity to examine the frequency and causes of startup failures—especially considering business and management perspectives. At first, the study will be focused on the introduction to the most common obstacles towards the launch of successful startup projects, which will be further followed by a review of the most serious mistakes committed by startups. The second section will overview a number of scholarly works to collect credible and valid evidence on the research question. Next, a synthesis of scholarly opinions and case studies will be analyzed simultaneously to investigate the causes of startup failure. This particular study will be dedicated towards the most significant mistakes of the vast majority of startups and potential recommendations for the prevention of failure.

Startups are often considered to be both prosperous and progressive projects in contemporary business and management. In turn, it is obligatory to point out that startups apply high-risk and high-reward business models in most cases. Modern business realities have caused a harsh setting for the emergence of fresh ideas and concepts, whereas startup companies are often put in unstable environments in which to prosper and develop. Subsequently, the low ratio of successful startups leads to heated debates and controversies concerning the applicability of most startups in a conventional business environment. The crucial point of the study is that the vast majority of startups, even after a successful launch, cannot find their place in narrowly specialized markets, indicating the necessity to reevaluate and reassess the structure and business strategies of startups.

Indisputably, numerous startups throughout history have proved their visions of grandeur; however, business giants tend to track and monitor the progress of efficient and ambitious startup projects with the aim of further taking control over their progress by hiring the creators and purchasing the assets of the projects. Nonetheless, the vast majority of startups do not manage to reach such a point, as they fail in their first stages due to poor marketing, a lack of innovation, being out-competed, or a lack the funds to maintain the progress of development. The examination and further analysis of the above-mentioned causes is the objective of the highest priority under the scope of the project's purpose. Consequently, it is required to conduct an in-depth analysis of recent literature on the subject of startup failures that primarily focuses on the study of real-life startup failures and their causes.

## Literature Review

Taking into consideration the current amount of studies and assumptions on the subject of startup failures, most scholars indicate their low impact on global markets in the long-term perspective. It would be reasonable to analyze the most valid and credible sources separately to examine the most common causes of startup failures and obstacles towards a successful operation in markets. For instance, Cantamessa et al. analyzed a sample of 214 startup postmortem reports to investigate the common causes of failure (2). The researchers located the no/wrong business model, a lack of business development, and running out of funds as the top-three causes for startups to fail. In turn, it would be justified to highlight the uselessness within the market as the fourth most common cause in the reviewed sample, which was initially perceived to be the most common reason among emerging projects. Indisputably, the flow of startup development is a crucial aspect in the examination of failures. This can be explained by the fact that startups that survive longer are more likely to face the issue of business development, whereas "younger" projects tend to struggle with legal problems, running out of funds, and having no value within global markets (Cantamessa et al. 12).

In regard to the high impact of such studies towards the general scope of startup failures, the pattern of living years/causes is to be considered in further studies. Similarly, Giardino et al. have released a study that primarily focuses on the analysis of early-stage software startups, which are considered to be the most vulnerable segment, even in the short-term perspective (11). The authors have mentioned the prominent examples of Facebook, LinkedIn, Instagram, Spotify, and Dropbox that are often suggested to be role models for both startup and business development; however, the vast majority of software startups fail before reaching commercial success. This particular article introduces a controversial and debatable strategy for the growth of

software startups, which lies in the prioritizing of the problem/solution pattern and its further application in the essence of a startup. By doing so, the authors highlight the necessity to conduct the measure for maximizing the speed of a launch, which is depicted as a crucial determinant of commercial success in both short-term and long-term perspectives (Giardino et al. 12). It is obligatory to realize that either neglecting or rejecting this concept may lead to the running out of funds in the early stage, which would cause startup failure to occur.

It would be reasonable to link the fast start with Crowne's article that focuses on the definition of the most important symptoms that are disrupting the process of a startup's launch: stabilization, development, and commercial success. Among the most prominent mistakes at the beginning of a startup project, Crowne indicates the young age of developers and the absence of character in the essence of the product. By mentioning the launch of the project, the article focuses on the necessity to develop a step-by-step approach and methodology for a startup to prosper. Logically, the report draws the assumption that paying extreme attention towards the launch is crucial, which is considered to be the key stage in the development of a startup project. Subsequently, the piece points out the early recognition and further management of early symptoms during the launch step as critical determinants of a project's success (Crowne 2). In some sense, such assumptions and claims are debatable due to existing projects that reached progress during further phases; however, the management of early symptoms allows developers to avoid the failure of a startup before commercial success happens.

Another valid source of data that has to be reviewed is the current report called "Predicting the Outcome of Startups: Less Failure, More Success" that showcases the analysis of prediction models during the growth of a startup. The article reveals the applicability of prediction models to evaluate the potential for a startup to fail. Since nine out of ten startups fail

in various stages and points of development, the application of the prediction models with approximate 73.3-96.3% prediction rates would result in the full vision of progress (Krishna et al. 804). This particular source of data should be analyzed appropriately by startup projects with the aim of further applying models to avoid common mistakes and misunderstandings of the business environment. More than that, it is equally significant to consider failure as part of a project's foundation, which is depicted by Triebel et al. According to their article, cultural differences have to be analyzed in connection to failures, which in turn cause numerous uncertainties regarding further collaboration between companies and projects. In addition, the article suggests a widespread assumption regarding the collaborative process during a startup project's development and progress, which is perceived as an integral part of success (Triebel et al. 122). Subsequently, the essential principles of qualitative communication, human resource management, and proper administration should be evaluated properly to prevent failure before the launch of a startup.

Much like the work of Giardino et al., the case study of Kalyanasundaram is obligatory to review under the scope of the subject. The key lesson that should be taken from the study is the realization of a quick launch under the banner of proper and in-depth mentorship that will not disrupt the central ideas of a startup. Mentorship is often perceived as integral under the scope of a first commercial success, whereas such work that disregards independent assistance is continually causing many struggles, especially among inexperienced managers and business developers (Kalyanasundaram 83). Consequently, the article is exceptionally significant to consider due to evidence-based data regarding existing startups in Bangalore, meaning that the key lesson in the form of the required mentorship was justified and valid. Since the funding of emerging startups is the central aspect that indicates the probability of success, it is important to

follow the set of recommendations that was released by Harel and Rosenzweig. In the essence of their study lies the approach of analyzing the potential correlation between the amount of knowledge and funding from the sample of total 9,193 startups during 1990-2014. The results of the study claim that higher rates of knowledge and specialization unquestionably result in the highest probability of funding, which in turn means higher chances for the efficient launch and development of a startup (Harel and Rosenzweig 17). Thus, it would be reasonable to claim that evidence-based data on the sample of approximately 10 thousand startups prove the positive impact of specialized knowledge and business competency in terms of commercial and creative success and the relevance of emerging startups.

As mentioned previously, creative success is in the list of crucial determinants of success, whereas the lack of a product's relevance is the most common cause of failure. The study by Helbert proves the unreasonably underestimated significance of creativity in the design of products for startups. The thesis focuses on the impact of creativity on the collaboration in teams working on business promotion and product design in a startup project. The study claims that the crisis phase occurs in the vast majority of startups, indicating the exceptional necessity to reconsider and reevaluate creative solutions during such phases and stages (Helbert 50). Considering the lists of causes of startup failures, it is mandatory to include the study conducted by CBI Insights, which comprises a list of the twenty most common causes of failure. More precisely, the study is based on a sample of 101 postmortems of startups. In the list of the most common mistakes, it would be reasonable to highlight the absence of a market need, running out of funds, getting out-competed, and the absence of, or a wrong, business model ("The Top 20 Reasons Startups Fail" 2018). As it was mentioned in the introductory section, these reasons serve to be the most common obstacles for startups to develop and launch to broader business

markets. The last source in the list is the work by Sarath and Pardede, which analyzed the applicability of the data's analytical approach during a startup's development. In particular, the article suggests that the use of such models is the most significant aspect to consider when examining the ways to predict the success of a startup (Sarath and Pardede 602). Subsequently, it is required to incorporate the findings and assumptions of these articles and studies to discuss the most common cause of startup failure and ways to prevent blunders in both short-term and long-term perspectives in the current business environment and setting.

### **Discussion/Results**

Since the vast majority of current studies on the subject are valid and credible, it would be reasonable to incorporate the findings in a single set of recommendations, at the same time identifying the basic mistakes being made by startup projects. The lack of a project's necessity and demand in the current marketing setting are often perceived as the most crucial aspects of failure, which is highlighted in the studies of CBI Insights and Crowne. Subsequently, most startups fail before being developed or imagined. This assumption is backed by the investigation of Sarath and Pardede, which claimed the uncertainty of developers to be the first cause of failure. In the current business setting and environment, launching a product without an innovative character and essence usually leads to irreversible failure. This cause may be combined with the lack of creativity and unusual solutions during the crisis phase, which disrupts the creative essence of each startup. In particular, the crisis phase may be omitted by building and evolving a substantial and independently approved business model. By doing so, funding and stages of development may be constructed adequately to a market's demands and possibilities, whereas issues with funds would not occur. Similarly, the lack of creativity and a

product's uniqueness is apparent among inexperienced developers, who perceive startups as a ladder towards the commercial success of their solutions.

However, solutions are required to be unique and applicable to the resolution of current marketing, business, or design issues—not merely the restatement of already existing alternatives on the market. In turn, the lack of experience may be resolved by involving mentorship facilities before and during the launch of a startup. By doing so, the most severe issues may be omitted under the banner of independently provided assistance by specialists in the startup field, which has been proven to be accurate and topical in most successful startups. The crucial point for a mentor at this stage is to maintain the essence and creativity within the team or the product, but at the same time, conduct measures to redirect the efforts of the startup towards commercial and business success. This involves funding and media coverage. The affiliation of third-party mentorship may be too expensive or difficult to obtain. Consequently, it would make sense to involve various prediction models to evaluate the applicability of the product in the market, at the same time assessing the efficiency of collaborative character within a startup team. By doing so, qualitative communication, business solutions, and creativity may be measured. This would prevent the startup from using an inappropriate business model or getting out-competed in the short-term perspective.

Another integral aspect of a startup's efficiency is the ability to launch quickly, which is often underestimated in the current business environment. Since most startups, social initiatives, and small-scale companies vanish rapidly, a plausible solution is to gain commercial and media success fast. This can be achieved by launching a product at the beta-test stage, which is often the turning point. This particular approach has become the key to the entire process of a startup's life cycle because a fast launch is the riskiest, but the most rewarding model. Proper risk-



management, with monitoring from third-parties or data prediction models, would allow constructing a statistical ratio for a startup's efficiency. It is important to remember that this rule works only for startups with innovative solutions, unusual foundations, and applicable designs for markets, indicating the necessity to run innovative startups.

## **Conclusion**

In general, most startups face the same issues as social initiatives or small-scale companies in the short-time perspective. In the list of the most common causes for startup failure are poor marketing, no market need, being out-competed, and lacking the funds to maintain the progress of development. Most emerging startups are unnecessary in modern business realities. The vast majority of such projects lack either funding, an adequate business model, or an applicability in the problem-solving process. Subsequently, this study proposed the implementation of prediction models, third-party mentorship, proper management, creativity during crises, and quick launches as the most efficient ways to prevent the failure of startups. The incorporation of these policies would allow omitting the described issues, and at the same time grant both commercial and media success among broader audiences. As follows, any project of a startup team has to bear the responsibility of creating a unique product that would resolve issues of a struggling segment of the market. Such a startup, following the project's set of recommendations and by combining the suggestions from the mentioned literature, would succeed in the current business setting, which is harsh for less-ambitious projects and startups.

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