HOW A USELESS STARTUP BURNS 25 MILLIONS IN 3 DAYS BUT THEN...

by Michael Marcovici

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BUSINESS START-UP FAILURES – CAN THEY BE AVOIDED?

Everyone would like to give up their day job and work for themselves – especially if they can find a lucrative sideline that is both interesting and focused on their particular skills, experience or talent. Who doesn’t have the ambition of giving up the daily grind, sitting at home and watching the cash roll in?

Unfortunately that Utopian view of starting your own business is seldom a reality for those who try it. For all sorts of reasons (many of which will be discussed in the following pages) estimates suggest that anything between 75% and 95% of all new businesses fail.

So what is different about yours? If you are seriously thinking about going down the route of a business start-up you need to sit down and think very carefully about it. Then you need to think some more. And then you need to do lots of research. You shouldn’t even consider taking the first step without going through a rigorous process of assessment and feasibility. You might have the greatest idea in the world (you probably haven’t but let’s say you do); even then if you can’t make it economically, sell it, market it, move it, service it, develop it, compete with it and lots of other activities – the chances are you won’t be able to make much money from it.

This compilation will look at why start-up ventures fail and the mistakes that people make when going into this area. It also considers what you might do to minimize the risks of failure and how you should think through and plan your business strategy to give yourself the best chance of success. The different types of start-up business and the sectors that you might want to assess are also covered in some detail. Some areas are easier to get into and perform better than others – but these are likely to be the most competitive as well so all the factors need to be balanced in making your decision.

Nothing in this field is ever quite what you expect. Things cost more, take longer, are more difficult, more competitive or just not quite how you envisaged they would be. You can learn from others’ mistakes and research can help you determine whether there is a market for your product, whether anyone else is already producing it, what you could charge and provide you with other important market or business information that can help you in assessing the likely viability of your idea.

There is also important guidance on assessing yourself. Are you the right sort of person to start and run your own business? Do you have the determination, stickability, insight, judgement? Are you really entrepreneurial – some people simply aren’t. And do you have people skills, negotiating skills, managing skills – the traits that it will take to make something that can work and run. We might think we would make good business owners but how closely have we really looked at ourselves and measured our strengths and weaknesses in this respect?

Starting up a business is a big step, fraught with risk and very likely leading to at least one failure. Be sure you know what you are doing – and are armed with as much useful information and tools as you can find. If after all this you are still convinced you can make a go of it – good luck and make sure you learn as much as you can about the pitfalls and what you can do to foresee and forestall them.

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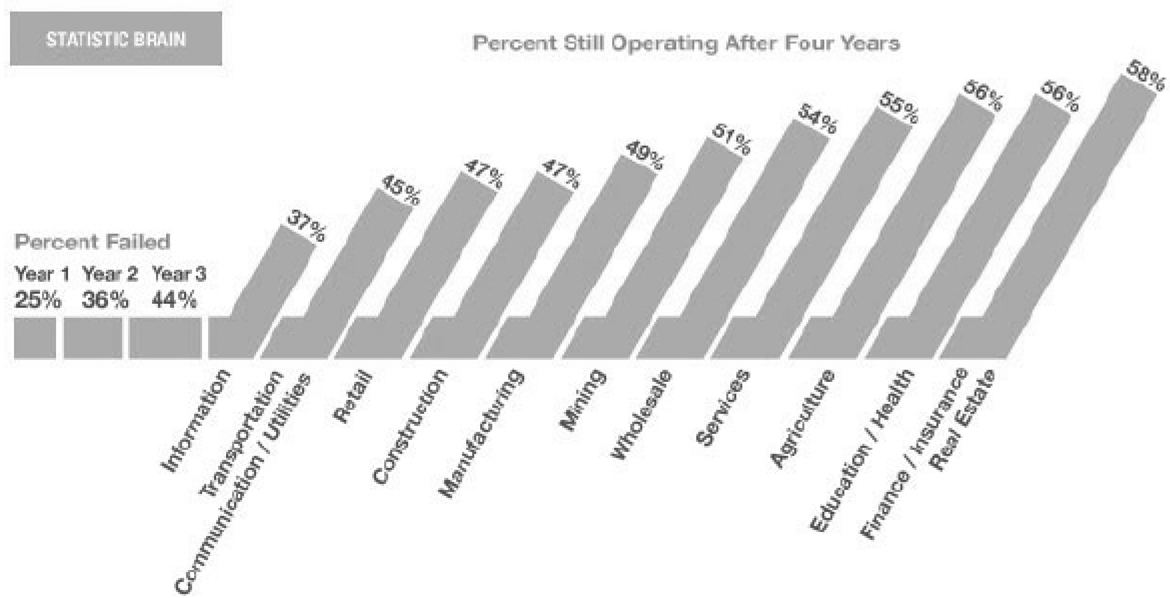
STARTUP BUSINESS FAILURE RATE BY INDUSTRY

Statistic Verification
Source: Entrepreneur Weekly, Small Business Development Center, Bradley Univ, University of Tennessee Research
Research Date: 7.27.2013
The reasons are sometimes complicated and not always

clear why a certain business fails? Upper management, lack of funding, or just the free market phasing out unwanted items or services. Typically, startups have a casual attitude to promote efficiency in the workplace, often needed to get their business off of the ground. A new trend in failed startups is the purchasing of patents by what are derogatorily known as “Patent trolls”.



Industry	Percent Still Operating After 4 Years
Finance Insurance and Real Estate	58 %
Education and Health	56 %
Agriculture	56 %
Services	55 %
Wholesale	54 %
Mining	51 %
Manufacturing	49 %

Construction	47 %
Retail	47 %
Transportation, Communication and Utilities	45 %
Information	37 %

Year	**Percent Failed**
Year 1	25 %
Year 2	36 %
Year 3	44 %
Year 4	50 %
Year 5	55 %
Year 6	60 %
Year 7	63 %
Year 8	66 %
Year 9	69 %
Year 10	71 %

	Major Cause	**Percentage of Failures**	**Specific Pitfalls**
1	Incompetence	46%	Emotional Pricing
			Living too high for the business
			Nonpayment

			Nonpayment of taxes
			No knowledge of pricing
			Lack of planning
			No knowledge of financing
			No experience in record-keeping
2	Unbalanced Experience or Lack of Managerial Experience	30%	Poor credit granting practices
			Expansion too rapid
			Inadequate borrowing practices
3	Lack of Experiences in line of goods or services	11%	Carry inadequate inventory
			No knowledge of suppliers
			Wasted advertising

			budget
5	Neglect, fraud, disaster	1 %	

	Leading Management Mistakes
1	Going into business for the wrong reasons
2	Advice from family and friends
3	Being in the wrong place at the wrong time
4	Entrepreneur gets worn-out and/or underestimated the time requirements
5	Family pressure on time and money commitments
6	Pride
7	Lack of market awareness
8	The entrepreneure falls in love with the product/business
9	Lack of financial responsibility and awareness
10	Lack of a clear focus
11	Too much money
12	Optimistic/Realistic/Pessimistic

	Businesses with Best Rate of Success After Fifth Year
1	Religious Organizations
2	Apartment Building Operators
3	Vegetable Crop Productions

4	Offices & Clinics of Medical Doctors
5	Child Day Care Services
	Business with Worst Rate of Success After Fifth Year
1	Plumbing, Heating, Air Conditioning
2	Single-Family Housing Construction
3	Grocery Stores
4	Eating Places
5	Security Brokers and Dealers
6	Local Trucking

http://www.statisticbrain.com/startup-failure-by-industry/

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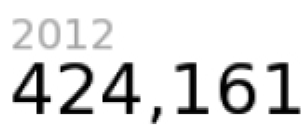
THE UK STARTUP ECONOMY IN NUMBERS: NOV 2012

By Anton Stout on Nov 20,

As TechCity takes stock of 2 years of startups in London, Inside Startups looks at the UK's startup scene in statistics. Here's our mini November 2012 UK Startup census.



UK Startups Stand Up and Be Counted…

Startup Tracker is a great tool, monitoring the health of UK Startups. It's stats record that in November 9,799 UK startups were born, part of the 424,161 created this year (BIS.gov).

The Growth of the Little (and Medium) Guy…

The SME world saw 38.7% growth from 2000 to 2012, that's 3.5 million to 4.8 million UK SME's, a 1.3 million increase (BIS.gov).

In 1st 3 Years

1 in 3

Being a UK Startup is Risky Business…

The UK is a cheap place to startup up according to Growth Business with 0.7 being the percentage of gross national income startup-cost for UK businesses, (compared with a global average of 20%). However, being a UK startup is a risky business with 1 in 3 businesses failing within the first 3 years. 20% of businesses fail within the first year, and in the next 3 years 50% of those fail.

So Get Advice…

A recent The Financial Times Guide to Business Start Ups found that 20% of failed businesses would still be in business after 2.5 years if they had sought advice at the outset.

UK Investment

5%

It's Hard To Find Funding…

There are currently 619,000 millionaires in the UK (2011), only 5% are Business Angel Investors (Barclays Wealth). VC cash is declining and the number of those that get it has always been small (some US stats put it as low as 1 in 99%) in the UK just 5% of investment goes in to Venture Capital.

But the government is waking up to the potential, especially for young entrepreneurs…

30,000: the amount of startups led by young people Prime Minister David Cameron stated StartUp Loans would create, 900,000: the amount of extra businesses the UK would have if it had the same rate of entrepreneurship as the US (BBC).

TechCity Staff
50,000

Tech startups are booming…

There are 3,000 tech companies in East London, employing an estimated 50,000 people (The Guardian). There's still 2,700 unfilled jobs (Computer World)

Is the UK a hub for Social Enterprise?

It's estimated 55,000 (89%) of social enterprises are located in urban areas one 5th are in London. The combined turnover of Social Enterprises is £27bn per year, contributing £8.4bn per year to the UK economy (nearly 1% of annual GDP) (Startups.co.uk)

Got more interesting startup stats? We'd love to hear them and add them to our UK Startup stat-check. Tell us in the comments below.

http://www.insidestartups.co.uk/blog/the-uk-startup-economy-in-numbers-nov-2012/

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33 STARTUPS THAT DIED REVEAL WHY THEY FAILED

JAMIE KINGSBERY, CHUBBYBRAIN JUN. 29, 2013,

Wikimedia Commons

We love a good entrepreneurial success story — entrepreneur as protagonist overcomes obstacles and builds a thriving, successful company (and become wealthy while doing so). We want to hear about, learn from and even replicate what they've done.

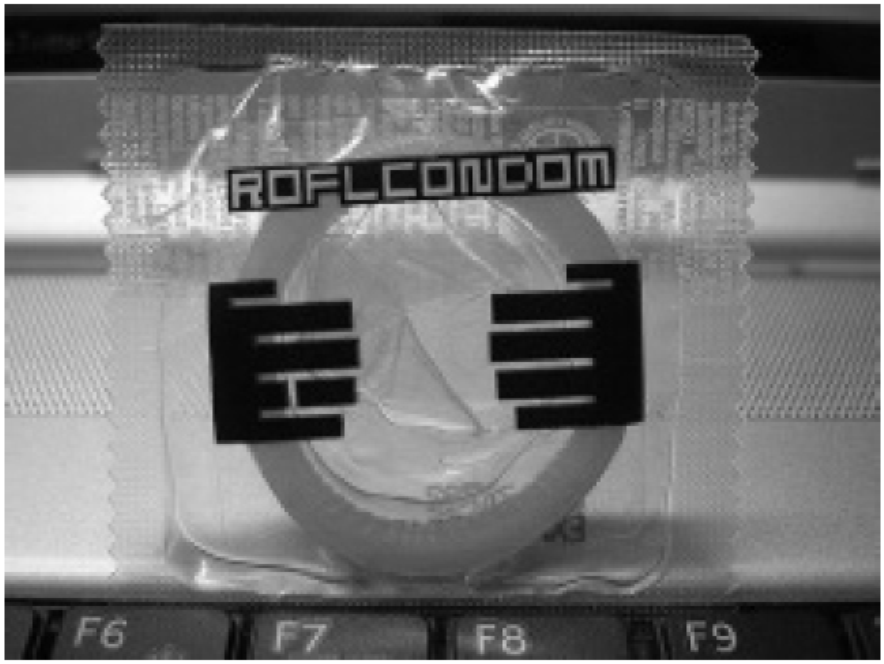
However, this survivorship bias is problematic. Jason Cohen of Smart Bear Software does a nice job articulating this issue stating:

"The fact that you are learning only from success is a deeper problem than you imagine … drawing conclusions only from data that is available or convenient and thus systematically biasing your results."

Luckily, the startup community often courageously shares their stories — even when things don't end well.

This list was compiled *by* ChubbyBrain *and was suggested by* Founders @Fail.

FAILURE #1: “I HAD THE NEXT BIG THING: CONDOM KEY CHAINS”



Article: StoryLog, “How My Startup Failed”

Excerpt: There was no doubt about it: I had discovered The Next Big Thing. Like Edison and the light bulb, like Gates and the pc operating system, I would launch a revolution that would transform society while bringing me wealth and fame. I was about to become the first person in America to sell condom key chains.

FAILURE #2: “WE TOOK ON MINT.COM AND LOST”

Article: Marc Hedlund’s Blog, Why Wesabe Lost to Mint

Company: Wesabe

Author: Marc Hedlund

Excerpt: Even before we launched, we heard about other people working on similar ideas, and a slew of companies soon launched in our wake. None of them really seemed to get very far, though, and we were considered the leader in online personal finance until September 2007, when Mint launched at, and won, the first TechCrunch 40 conference.

From that point forward we were considered in second place at best, and they overshadowed our site and everyone else’s, too. Two years later, Mint was acquired by Intuit, makers of Quicken (and after Mint’s launch, the makers of

Quicken Online) for $170 million. A bit less than a year later, Wesabe shut down.

FAILURE #3: “WE THOUGHT, ‘WE’LL ATTACK THIS PROBLEM A FEW YEARS BEFORE MICROSOFT AND ORACLE NOTICE IT AND RECOGNIZE IT AS A PROBLEM.’”

Article: ArsDigita – From Start-up to Bust-up

Company: ArsDigita

Author: Philip Greenspun

Excerpt: For roughly one year Peter Bloom (General Atlantic), Chip Hazard (Greylock), and Allen Shaheen (CEO) exercised absolute power over ArsDigita Corporation. During this year they

1. Spent $20 million to get back to the same revenue that I had when I was CEO
2. Declined Microsoft’s offer (summer 2000) to be the first enterprise software company with a .NET product (a Microsoft employee came back from a follow-up meeting with Allen and said “He reminds me of a lot of CEOs of companies that we’ve worked with… that have gone bankrupt.”)
3. Deprecated the old feature-complete product (ACS 3.4) before finishing the new product (ACS 4.x); note that this is a well-known way to kill a company among people with software products experience; Informix self-destructed because people couldn’t figure out whether to run the old proven version 7 or the new fancy version 9 so they converted to Oracle instead)

4. Created a vastly higher cost structure; I had 80 people mostly on base salaries under $100,000 and was bringing in revenue at the rate of $20 million annually. The ArsDigita of Greylock, General Atlantic, and Allen had nearly 200 with lots of new executive positions at $200,000 or over, programmers at base salaries of $125,000, etc. Contributing to the high cost structure was the new culture of working 9-5 Monday through Friday. Allen, Greylock, and General Atlantic wouldn't be in the building on weekends and neither would the employees bother to come in.
5. Surrendered market leadership and thought leadership

FAILURE #4: "WE WOULD'VE SPENT ANOTHER THREE MONTHS HEAD DOWN DEVELOPING IT, WITHOUT A BUSINESS MODEL OR ANY WAY TO KEEP PAYING THE RENT.. AND FACEBOOK WOULD JUST END UP RIPPING IT OFF."

Article: RiotVine Post-Mortem

Company: RiotVine

Author: Kabir

Excerpt: It's not about good ideas or bad ideas: it's about ideas that make people talk.

And this worked really well for foursquare thanks to the mayorship. If I tell someone I’m the mayor of a spot, I’m in an instant conversation: “What makes you the mayor?” “That’s lame, I’m there way more than you” “What do you get for being mayor?”. Compare that to talking about Gowalla: “I just swapped this sticker of a bike for a sticker of a six pack of beer! What? Yes, I am still a virgin”. See the difference? Make some aspect of your product easy and fun to talk about, and make it unique.

FAILURE #5: “TWITTER STOLE MY THUNDER”

JOE MARINARO via Flickr

Article: The Last AnNounce(r)ment

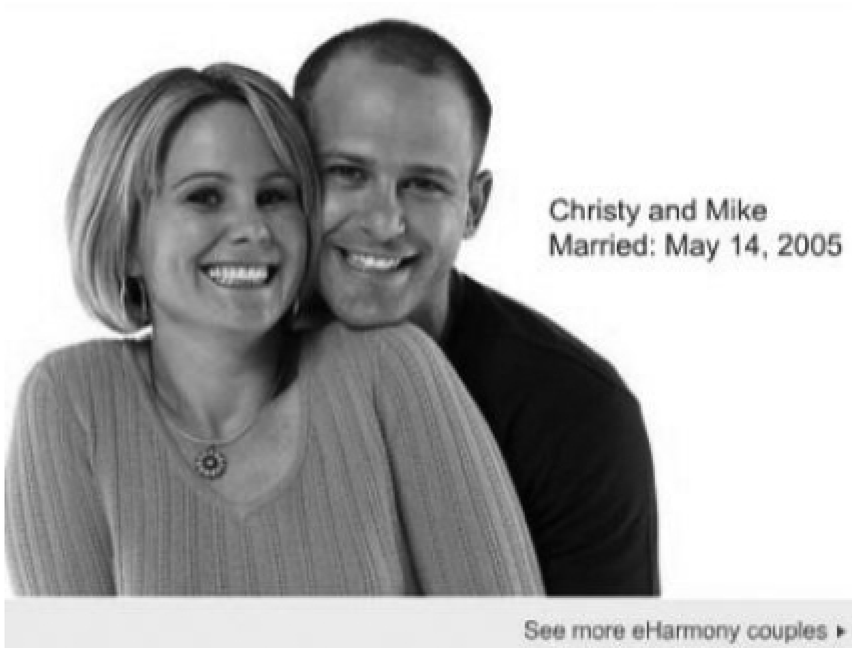
Company: Nouncer

Author: Eran Hammer-Lahav

Excerpt: Nouncer wasn’t an easy idea to explain to people 2 years ago, especially since microblogging didn’t exist yet. Twitter, Jaiku, Pownce, and other services were introduced while Nouncer was being developed. The new services made it easier to explain and communicate the idea, but at the same time took away the first-to-market opportunity as well as added competition, and raised questions about the business plan.

As Twitter received more attention, clones showed up everywhere. My decision was not to compete with a new and already crowded space, but to find a different angle. I decided to focus on scalable technology, making a bet that once Twitter and others will get popular, there will be a real need for that kind of technology by other players... The business decision to focus on technology and avoid building a consumer application had a significant impact [on the eventual failure].

FAILURE #6: “MY BILLION DOLLAR IDEA WAS DESCRIBED AS “TIRED” AND “ANNOYING’”



Article: My eHarmony for Hiring Failure

Excerpt: Then came the coup de grâce. The first article mentioned starts like this:

I spent an hour on the phone yesterday with yet another entrepreneur who imagined that the future revolved around the “eHarmony for Jobs. ”(The idea was tired a couple of years ago.)

I couldn›t help but almost chuckle a little bit in embarrassment. My billion dollar idea, was summed up as annoying, and tired a couple of years ago. How could this have slipped by me?

FAILURE #7: A BUILD-YOUR-OWN YOUTUBE/YELP, ETC. HAD ISSUES WITH MONEY, TR ACTION, TEAM, AND VISION

Article: BricaBox: Goodbye World!

Company: BricaBox

Author: Nate Westheimer

Excerpt: I can tell you most of this decision [to close BricaBox LLC] revolved around issues of money, traction, team, and vision: the four essentials of a successful startup. I think it's fair to say that a startup deserves to live if it has good quantities of at least three of those four things, and BricaBox is now out of all but one of them.

FAILURE #8: THERE WERE A LOT OF MISTAKES WITH RESEARCH, PICKING TEAMS, OFFICE SPACE AND MONEY

Article: Boompa.com Launch Postmortem, Part 1: Research, Picking a Team, Office Space and Money

Company: Boompa.com

Excerpt: While there are many documents on the web covering this subject, most are written after the fact of success and don't provide the "holy shit, we just quit our jobs" perspective that is going to be common with anyone who doesn't have the contacts to get involved with VCs. A year from now this story will either be a testament to our methodology or an embarrassing reminder of all the mistakes we made.