

Reasons Why Start-ups Fail and How to Avoid Them

Author: Kudzai Derera . January 2020

Research shows that 99% of all start-ups fail. Have you ever wondered why it is like that and despite such statistics there are many entrepreneurs who continue to try building their own start-ups, hoping they will become the next billionaire? Many people think it is just about coming up with a brilliant idea and then putting in the hours and sweat to make it a reality. Well, the bad news is that having a great concept and strong work ethic will not guarantee one of success. This is because there are a lot of other factors that fall into play such as how your mind operates, where you find yourself in the world etc. But, the good news is that everyone has got *an unfair advantage* which is a unique skill or talent that you have. This might be the reason your start-up could win over the competition.

There is always something you can leverage on in life. These could be circumstances like wealth or good looks. Many times we look at people who are wealthy, famous or attractive and think they have got a lot going on for them. However, these are not the only advantages one has and can capitalise on. For example, Evan Spiegel who is the founder of Snapchat became a billionaire by the age of 25. He was raised by wealthy lawyers who were friends with successful rich business people which gave him access to money, funders, and mentors. His idea of Snapchat was indeed innovative but he had an advantage right from the get-go. Take note! This does not mean that if you do not have connections and wealth you will not be successful. Think of all the rags to riches true-life stories you have heard.

Everyone thinks that life would be easier if they had money. This is not true because money definitely helps but it is not everything. Money has a huge advantage when starting a business because profits start coming in later down the line. Whilst the business has to stay afloat even before generating profits, a general guideline is to have between 6 to 18 months' worth of *funds to survive*. This will help the founders and employees to eat and pay bills. An example is Jan Kuom who founded WhatsApp with \$400,000 that he saved from his developer job. You can try saving by using your skills to earn extra cash on the side for example maybe you are an expert at managing social media or you are good at designing. If you cannot save for your start-up, capitalise on wealthy connections because they are potential investors. An example is Mark Zuckerberg who raised \$50,000 for Facebook from his family and friends. Money gives you something to fall back on in the event that your start-up does not succeed.

As a start-up founder, it gives you an advantage if you are very intelligent because you can easily learn new skills required in your business. Remember those kids back in school who could learn a lot and do it very fast. An example is Patrick and John Collision, the co-founders of an online payments company called Stripe. They were millionaires before they were allowed to drink legally and they had launched two tech start-ups. At the age of 10, Patrick had learned how to program and he developed a programming language at 16. The brother John got the highest grades and got accepted into Harvard which had already accepted him before these top results. There is a need to understand that *intelligence* is not only about good grades or how one can absorb concepts but it is also about understanding the world and the people in it.

An **insight** is a deep understanding of a problem or solution. It is often the main reason why successful start-ups get ideas for a product that is perfectly suited for the market. Usually, great ideas are not just random but they have to be interesting and have unique insights at first. Insights are sometimes acquired from general research for a specific background or belonging to a specific demographic. An example is Will Shu the founder of Deliveroo. In the first days of his food delivery start-up, Shu spent 9 months making the deliveries himself on a bike undercover so that he could learn a lot more about the challenges faced by the riders and the obstacles faced by the restaurants and customers. The main focus is to be your own target customer like Shu did, you can get valuable insights by putting yourself in your customers' shoes.

Timing and location are very essential in start-ups because it can be the key to unlocking opportunities. Huda Kattan is the founder of Huda Beauty which is a cosmetics line launched in 201. Huda Kattan studied at the best makeup school in the United States in Los Angeles. After she graduated she got to work with Hollywood stars like Eva Longoria and Nicole Ritchie. Later on, Kattan moved to Dubai, where she found an eager market for her Middle Eastern-focused beauty blog and products. This shows that location can be advantageous however, timing is also crucial. Dropbox which has over 500 million users failed in the early 1990s because the internet connections were not fast. It was the same fantastic idea as Dropbox back in the 90s but it was too early for its time!

A degree can also lead to **useful connections and expertise** besides learning. Growing up, parents always told us that a good college degree will set you up for life and get you a good job. However, learning has other advantages which can change your life after college. If you go to elite universities you definitely meet people who can play a very significant role in your success. Usually, elite schools have got high tuition fees which means the majority of the students are wealthy and could be your future investors. You might also meet your co-founder on campus. An example of Bill Hewlett and David Packard, who met at Stanford and later started the IT company Hewlett-Packard. Besides social connections, being an alumnus of an elite university can give a lofty impression. The founders of billion-dollar start-ups usually come from elite universities. When you master a skill or a specific field, you become an expert and can easily spot opportunities in that area. Years on the job, online resources, books, and even mentors can all lead to expertise, as long as you are constantly applying and testing what you are learning you will be guaranteed of success.

The last major reason why start-ups fail is **who you are and who you know**. This is because who you are and who you know speak volumes. In the professional world, status sometimes trumps ability when it comes to deciding who should be given an opportunity. Consider a 2016 study by the Social Mobility Commission in England. It found that graduates interviewing for investment banking jobs in London did not get hired if they wore brown shoes. Well, if you did not know that in the banking industry wearing brown shoes instead of black is a no-go because according to bankers, brown shoes suggest that you are from a lower class. The employers used this status indicator to decide whether candidates were right for the job. This kind of thing can be frustrating. While it might seem like anyone not born into high society is forever locked out of opportunities, there is good news which is that you do not have to be from the upper classes to know how to blend in, socially and professionally. For example, remember Tristan Walker – the founder of Walker & Co.? On a scholarship, he attended an elite boarding school worlds away from his home in the projects. There he saw how the wealthy lived and learned how to adapt to

different social groups.

Everyone has some kind of advantage. You can influence the success of your start-up by looking at what you already have – whether it's connections, assets, insights, or simply being well-situated. When you leverage your advantage and throw in hard work, your start-up will gain traction, and eventually success. Find a start-up partner who complements you. It is very rare for one person to have all the unfair advantages. By partnering with someone who has something you do not have will help you to immediately stack the odds in your favour. If you a creative mastermind then look for someone with technical skills. Would you rather be working hard on your product than socializing? Then an extroverted co-founder who can network and build connections will help. Whatever they bring to the table, make sure that you trust them and that you can work well together for your start-up to succeed.

Kudzai Derera is the Business Systems Manager at Industrial Psychology Consultants (Pvt) Ltd, a management and human resources consulting firm.

LinkedIn: <https://zw.linkedin.com/in/kudzaiderera>

Phone: +263 242 481946-48/481950

Mobile: +263 773 523 084

Email: kudzai@ipccconsultants.com

Main Website: www.ipccconsultants.com

<https://thehumancapitalhub.com/articles/Reasons-Why-Start-ups-Fail-And-How-To-Avoid-Them>