



CAUSES OF STARTUP FAILURE

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Abstract

Startups are a crucial part of the economy, and their success or failure can significantly impact the business ecosystem. As per study with over 93% of them falling within the first five years. This paper aims to explore the reasons behind this high failure rate and identify the key factors contributing to startup failures. Methodology involved extensive review of academic literature, case studies, and expert interviews. This study shows why startups fail in their commencing age and what are factors an entrepreneur keeps in his mind to use as a band-aid to subsist in the infant age of startup.

Keywords: Startups, startup failure, Startups success, marketing errors, Economic development, successful business

INTRODUCTION:

Now we all know that India is the fastest growing economy and the feature is all about entrepreneurship where many new innovative and creative ideas come and use for earning profit or commercial activity (generating revenue). Simple we know that any business that comes with a new idea or an existing product with new modifications will count in entrepreneurship or start-up start-ups are a wave that running for a decade and we listen to many failures and successes stories of start-ups in India like Dazo frankly these are some failed startups and CRED Vernacular.ai Pharm Easy are some king successful startups. As per a recent study as we have studied, 90% of start-ups fail [1], which means the start-up success rate is around 10% and approximately 20% of new businesses Dead during their first two years of being started, 45% during the first five years, and 65% during the first 10 years. Only 25% of new businesses make it to 15 years or more [2]. Some are still struggling for their existence in the market. There is a government website where you can register yourself as a startup for initial age support from the Indian government. Some criteria as per start-up India that you need to full fill to register yourself is [3]

- Your company or business age, should not be over 10 years.
- You are an annual turnover not exceeding 100 crores.
- There is something new in your business idea that will help to solve a problem
- There is no same business should available

Startups are popular for their potential for speedy growth and flexibility, driven by their Troubling or unique business models. The main objective of any startup is solving the customer or potential customer in a creative or innovative way. The organizational goal of maximum startups is to target significant market share and profitability. And growth in firm value.

So, in this study, we will understand the reason for their failure or what kind of challenges a start-up business suffers at the initial stage.

LITERATURE REVIEW:

Any company that comes with a new idea or modification in the product or service and did not complete 5 years in the economy and annual revenue below 100 crores comes under the umbrella of startup and can register their self as a startup as per startupIndia.gov.in [3]

Seong & Kim (2021) look at the failure of startups from a different angle like the confidence of the entrepreneur, and stable economic condition is one of the most important factors. And the second important factor is the product type, market, and financial status of the startup. This information in the study was obtained by interviewing 15 venture capitalists.

Sahaf & tahoo (2021) have studied the key factor for the success of a startup in Bahrain. In this study the information collected by different founders considers the knowledge and experience of an early founder to play a big role in success.

Cantamessa et al. (2018) discuss the causes of the failure of startups using the shell analytical model

According to the study 3 Important causes are [4]

1. lack of correct business model 2. Lack of experience and ability 3. Exhaustion of capital

Singh et al. (2019) research finds the challenges faced by startups in India. And the challenges are access to funding, regulatory complexities, and talent acquisition. It emphasizes the need for government support, incubation centres and skill development programs to address these challenges and foster startup growth.

Kalyanasundram (2018) has examined a startup located in Bangalore. And they wrote a paper about a comparison between successful and failed startups. The result is the Wrong timing of the launch product, the founder's personality, the founder's age, and the founder's experience.

METHODOLOGY:

The goal of this research is to analyse the various factors that became the reason for startup failure. An appropriate focus of research in startup failure due to wrong marketing decision. The research method is following

Case studies: Researchers conducted in-depth case studies of failed startups to gain insights into the reasons for their failure. This involves analysing the startup's business model, team dynamics, market conditions, and other factors that contributed to its demise.

Surveys: Surveys were conducted with startup founders and employees to gather data on the most common reasons for startup failure. Questions are designed to elicit information about the challenges faced by startups, such as funding, team dynamics, market conditions, and competition.

Data analysis: Researchers analyse the data from failed startups, such as financial records and marketing data, to gain insights into the factors that contributed to their failure. This approach can provide a more quantitative understanding of the reasons for startup failure.

Expert interviews: Researchers interview to experts in the startup ecosystem, such as investors, incubator managers, and successful startup founders, failure startup founder to gain insights into the most common reasons for startup failure.

Literature review: Researchers conducted a systematic review of existing literature on startup failure to identify the most common reasons for failure and the most effective strategies for avoiding it.

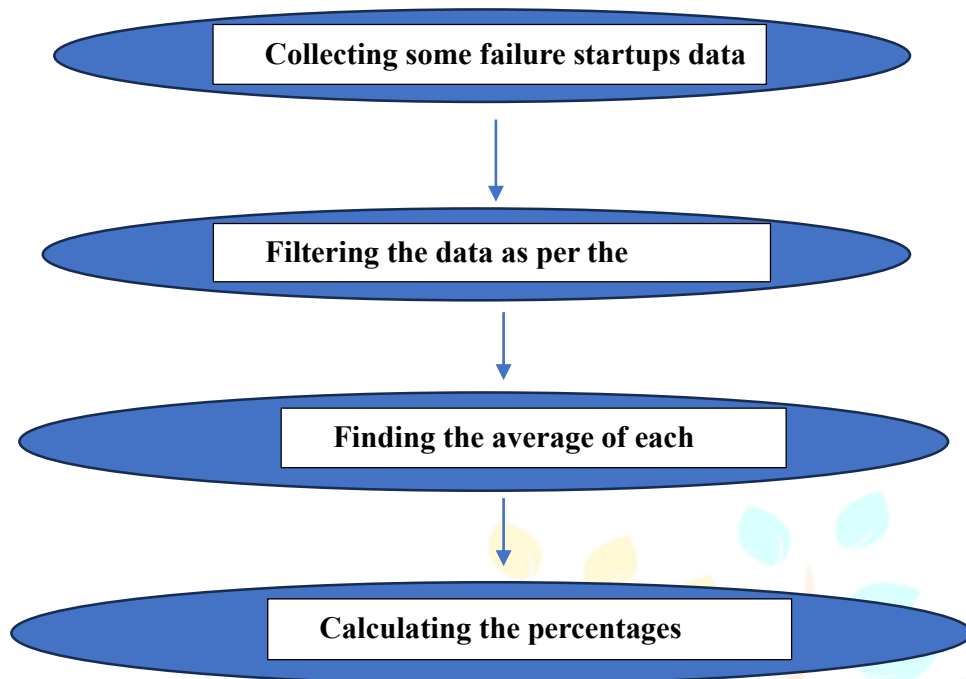
Overall, a combination of research methods is often necessary to gain a comprehensive understanding of why startups fail.

STUDY DESIGN

The data for this research is collected over four months period (January 2023 – April 2023) through 13 individual interviews. This research involves the analysis of primary and secondary data, expert interviews, and as well a startup failure research paper that publish on the Internet. The interviews were conducted with various individuals aged ≥ 30 years with more than a year of experience in entrepreneurship.

INTERVIEW PROCESS

During the period of January 2023 and April 2023, there are 13 entrepreneurs interviewed from different-different sectors. The industry covered by the researcher is 5 (4 from tech startups, 2 from IT, 3 from the service industry, 1 from food and one from fashion accessories, 2 from textiles). All the interviews are covered in a very unorganized structure there are no preplan questions the questions were designed as per the industry and the answers of the entrepreneur connect in deep with the startup format. After collecting all the data from the participant, the researcher starts analysing it and starts finding the common problem that each industry faces during their initial age. And after filtering the data there is some common struggle that each industry is facing is **LEGAL PROBLEMS, OPERATIONS PROBLEMS, TECH PROBLEMS, FINANCE PROBLEMS, LACK OF MARKET FIT, MARKETING PROBLEMS, and TEAM PROBLEM** but the ratios of the problems are very different then the researcher start finding more data from different sources (case studies of failed startups) then he found some percentage of each problem in the process of success.



For four months the researcher conducted 13 individual interviews with successful and unsuccessful entrepreneurs. In this, we cover five sectors (food, fashion, textile, IT, tech) these for industries that we cover in individual interviews. And each interview almost takes 1.5 to 2 hours to collect data through an unorganized interview method with the young startup's founders after the all-individual interview researchers did an analysis of all the data and found some common reasons for the startup failure in their initial stage. To rectify the result researcher did again an analysis to match the collected data with recent failed startups and then identified that 98% of startups failed for this reason only.

FINDINGS:

Figure: 1
shows the common struggle for every startup industry with percentage

FINDINGS	PERCENTAGE
LEGAL PROBLEM	2%
OPERATIONS PROBLEM	2%
TECH PROBLEMS	5%
FINANCE PROBLEMS	17%
LACK OF MARKET FIT	33%
MARKETING PROBLEM	23%
TEAM PROBLEM	18%

RESULT

- Legal problems:** new young entrepreneurs didn't know the proper legal process and without understanding they just share their ideas which may lead of copy the product and service. 1st you need to register your business with a trademark and patent your idea.
- Operation problems:** many entrepreneurs explained in their interviews that planning an idea for a business startup is very easy but executing the same idea on an operational level is super difficult with only one mistake and you are out of the game. You need to prepare a proper strategy for your operation function with proper efficiency and effectiveness.
- Technical problem:** this problem mainly arises due to the education factor of the entrepreneur or the fund-raising issue. The startup owner must need to know about the technical update in the market and how it's working and at what cost it running because, in the era of digitalization, you cannot run your business without technical tools and software.

4. **Financial problem:** every business has financial problems but when you don't use your finance in an optimal manner then you start your journey towards failure. Most startup businesses fail due to unorganized and optimized financial planning some of them expend there all their money on marketing and some of them expand all their money on product development or a specific component. You need to plan and distribute your capital in a very strategic manner and always maintain provision because the future is totally uncertain. Always follow the conservatism concept.

(Conservatism concept: consider your future loss in the present to prepare for the future)

5. **Lack of market fit:** most of startups fail only because the entrepreneur innovates the product that he wants not as per the consumers want. Your product will never succeed if you go without proper research & development. Every business first needs to do proper R&D before any step is taken for the product, you need to fit your product in the market not the market fit itself as per your product.

- **Some points that play the lead role in the lack of market fit**

1. **Research and development:** Many startups fail because they did not conduct thorough market research to understand their target audience's needs, preferences, and pain points. Without a deep understanding of their target market, startups may develop products or services that do not meet their customers' needs, leading to poor sales and eventual failure.

2. **Wrong distribution:** In some cases, startups may have great products or services but may not be able to reach their target audience effectively, which can lead to low sales and revenue, ultimately failing.

3. **Product Uniqueness:** In a crowded market, it is essential to differentiate oneself from the competition. Startups that fail to differentiate their products or services from others in the market may struggle to attract customers and gain market share.

6) **Marketing problem:** the second most important reason for startup failure is wrong marketing, all the failed startup interviews conclude that they promote their product on the wrong platforms and with the wrong audience. They were assuming their potential consumer, were just an audience for their product. But the budget also plays a great role here Startups with limited marketing budgets may struggle to create enough awareness and generate leads. Inadequate marketing budgets can lead to an insufficient or ineffective marketing strategy, resulting in low sales and limited growth.

CONCLUSION

After collecting and analysis of all the data from various sources, the researcher found some common reasons for startup failure and struggle in the initial age of the first five years. As per the data major startup fails due to lack of product fit and marketing problems, where 33% of startups fail due to wrong market fit and 23% because of wrong marketing which means 56% of startups fail just because of wrong marketing only which means 6.6 out of 10 startup fails or suffer huge losses in there commencing 5-year age and the most raised common problem is 4Ps of marketing. [5] [6]

- Product: The commodity in which the business is dealing
- Price: pricing of the product after analysing and calculating all kinds of expense
- Place: refers to various distribution platforms
- Promotion: the whole function of advertisement [7]

Apart from this, there is much more reason for startup failure and that also play a role to increases the struggle in commencing age of startup business

Like: **a lack of educational knowledge of the industry, the overconfidence of young entrepreneurs, ineffective research, and development, etc.**

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