

# A Study on Why Most of the Startups Fail?

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**Abstract:** The Start-up Terms it refers to people, particularly young dynamic people getting together and starting their own company (Start-up) to create values for customers as well as for themselves. On an average 9 out of 10 start-ups fail (industry standard). Several reasons are responsible for the failure of a start-ups including bad management, lack of funds, etc. This work aims to create a predictive model for start-ups based on many key things involved at various stages in the life of a start-up. India and countries like India need such practical, dialectical steps to counter the gaps of development. It is highly desirable to increase the success rate of start-ups and not much work have been done to address the same. We high-light the point of most of the start-up's failure reason. On an average most of the start-ups not survive in first years. Start-ups with basic propose a method to predict the outcome of a start-ups based on many key factors like seed funding amount, product launching time, lack of management or negative cash flow factors contributing to the win and loss of the company at every milestone. More importantly this article would be helpful to underline the major contributions of start-ups in economics like India. This research paper will furnish variety of recommendations to improve the overall scenario of start-ups in India and help in making India the world's start-up capital.

**Keywords:** Startups, Innovation, Start-up capital and Entrepreneurship development

## 1. Introduction

India has been ranked third in the global start-up ecosystem, and the year 2018 was dominated by foodtech start-ups, says the Economic Survey for 2018-19. The government also announced the "Start-up India, Stand-up India" initiative on August 15, 2015, which aims to create an ecosystem that is conducive for the growth of start-ups. According to Economic Survey, as on March 1, 2019, 16,578 new start-ups were recognised across 499 districts in India.

Start-ups must not be confused with small business, as the biggest difference being is INNOVATION. The first achievement of a start-up begins with a great idea which later change into a great hypothesis. A significant portion of entrepreneurs or innovators attempting to establish a business lead to failure. As per the statistics.

9 out of 10 start ups fail. It has always been the need of entrepreneurs to know the key factors involved in creating a successful company. Each and every entrepreneur wish his/her hypothesis to work out which can encourage lead to a successful enterprise. They wish to create a product which is admired by their consumers and at the same time the company maintain to get enough traction.

Few studies have been done trying to figure out the real reasons behind a start-up failure. Many companies (tech/non-tech) have been struggling on the same problem for quite some time now. One of the works done is deciding the win and loss factors in the pre-start-up phase. Our work tries to create a too close predictive model to predict if a start-up will succeed and failed.



Fig. 1. Start-ups fail in 1st five years

## 2. Literature review

We have examined the empirical literature focusing on different dimensions of start-up entrepreneurship, including exploration of the factors contributing to firm success and causes of failure.

## 3. Research and methodology

Case study methodology will enable us to collect the information from a single unit, which is relevant to the problem area and will help us in formulating our proposition. The case study methodology acquire for the study requires expedition. Case study research for use reports of past studies, allows the exploration and understanding of complex problems.

Most of the start-ups fails there are common factor

This is common factor which is miss by Entrepreneur who leads start-up. Small mistake and avoid ness create huge impact on growth of start-up. In this example or point we cover all business model example B2B, B2C etc.

**A. Missing Innovation around Customer's Money-Making Model**

No Indian company could dominate the world market so far because Indian start-ups are coming with the lack of exactly needed innovation to solution to the problem of customers. Make people life's easy by understanding their needs but reality is lack of innovation to invent the product.



Fig. 2. Missing innovation around customer's money-making model

The help of customer money making model this information entrepreneur or business person easy avoid in business model. In this scenario we can see that How Indian Start-up copy foreign country successful start-up but they not going to make own innovation. It's difficult to making own branding in the world. Rarely Indian big start up is making own innovation.



Fig. 3. Missing innovation around customer's money making model

**B. Negative Cash Flow, Negative Working Capital.**

Most of the Indian Start-ups fail behind the reason negative cash flow or negative working capital. Running business for continuous cash flow important. Payment delay may break your working business operations while your book of account showing profits. The absence of cash because negative cash flow so you start looking for funding but after one level investors not trust you.

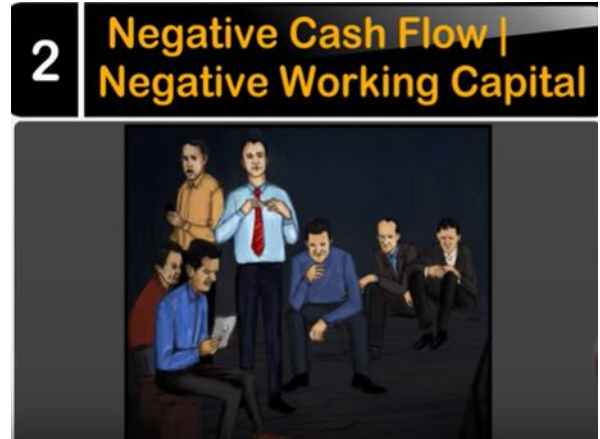


Fig. 4. Negative work capital

In start-ups very important cash flow in right way. Because start-up they provide a service to customer but customer delay to payment.



Fig. 5. Negative cash flow

In books of account show the Net profit is good but Payment delay due to create big issue to run their start-ups.



Fig. 6. Positive cash flow

**C. Expansion with Negative Margin**

Most of the business person and Entrepreneur thinking is giving a heavy discount and deals which leads to low margin. Common reasons why start-ups fail in India are:



Fig. 7. Negative margin

Because of low margin is difficult to set long term profit for existence in market. If continuously lower pricing given to consumer for deal cracking its indirectly broke your start-ups.

**D. Lack of Talented Manpower**

Most of the start-ups fail behind the reason you don't build highly executable, capable or energetic of talented people to execute your plans for long lasting would be less.

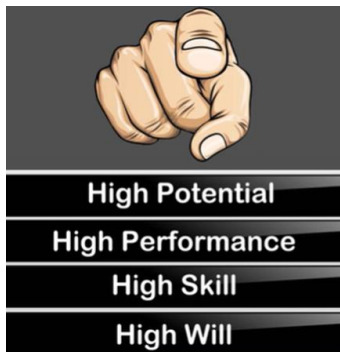


Fig. 8. Lake of talented manpower

You need to work on Competency mappings or Competence assessments of your manpower's, and the Convert your ideations into executions.

**E. Scalability with Recurring Revenue Model**

Boosting for your business you need to be stronger scalability with recurring revenue model to create strong base for regular customers. Many start-ups looking for new customers while loose exiting customers.



Fig. 9. Scalability with Recurring Revenue Model

When engaging new customers but they are unable to retail old customers which break flow of revenue indirectly effect on profitability and scalability.

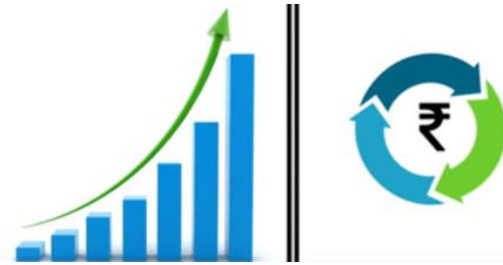


Fig. 10. Growth of scalability and recurring revenue model

**F. Mixed Marketing Signal and Wrong Positioning**

Most of the Indian entrepreneur they don't know how to positioning their product in market. Entrepreneur need to ask this question as business perspective is Who is their perfect customers and who is not their perfect customers.



Fig. 11. Product planning failure

If launching product without proper study segmentation of customers. It is difficulties to positioning your products on the basis of its identity or price or value or feature and reliabilities after study consumer behaviours. It is marketing and branding strategies will be based on its right positioning product.

**G. Releasing Product as a Laggard**

It is prime version why Indian start-up fail because delayed launching products in market. which directly effect on profits and market shares.



Fig. 12. Releasing product as a laggard



Because of late product launching its business for difficult to generate revenue so indirectly product margin and deals offers to consumers which end up ruining their profit margins on product.

**H. Save Yourself from Getting Outcompeted**

Always prepare to tackle any disruption caused by competitors so need to be always aware about competitor's movement.



Fig. 13. Sourcing low priced items

**I. Missing the process of converting feed-back into feedforwards**

Taking customers feedback into account and the complaints is most help full for product and services improvement. "When you ignore customer feedback and complaints then your customer switch to your competitor".



Fig. 14. Feedback conversion



Fig. 15. Complaint is a gift

Customer feedback and complaint is sign of he wants with you. But only one condition is always bringing with improvement in your products. Complain is a gift for your product, Catch it. Thanks for feedback. This mind set use in business.

**J. Business Model of Complete Eco-System**

In single platform by covering customers or stakeholders

example is digital giant like YouTube, Facebook and amazon. It causes effect on market if they exit. Identify the problem why you are late or delay to make stronger and big platform. Definitely, you will be the next Unicorn in the world.



Fig. 16. Example of Ecosystem

Given above ten points, you would be able to easy understands why most of the start-ups fail in India and direct your strategy and planning accordingly to make it successful start-ups.

**4. Personal characteristics of entrepreneurs**

Personal growth most important. If you want to become Entrepreneur you need to be discipline with yourself. Your Entrepreneurship journey for you need to understand basic funda of business. Personal growth-related means you need to constantly educate yourself.

Entrepreneur mentally prepares for challenges. Entrepreneurship in always thinking with two factor one is good scenario or other is bad scenario.

Visualisation is most important, Personally, make you strong with your commitment and never give up.

Just one attitude decides your journey of entrepreneurship.

**5. Survey conducted on why most of the startups fail**

**A. What do you think about start-ups?**

Most of the person says 'Start up is Challenge'. On Start-ups is actually difficult to start because you need to do positive mind set and good problem solving or creativity thinking. This all skill makes you for easy to start start-ups.

**B. What do you think about the most needed skills for Entrepreneurs?**

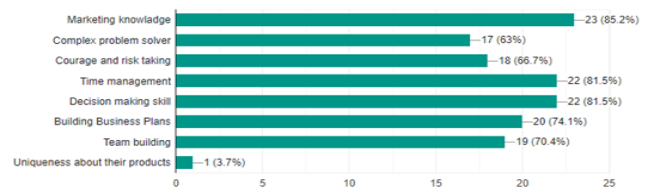


Fig. 17. Survey on skills

In this survey most of the users says marketing knowledge is

most important for entrepreneurs. And second next priority is management and decision-making skills for entrepreneurs because this skill helps to tackle any hard situation and rapidly growth for start-ups.

**C. What do you think about the personal skills of Entrepreneurs?**

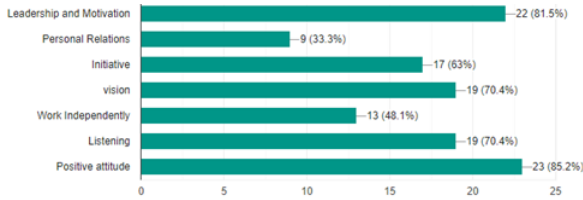


Fig. 18. Survey for personal skills of entrepreneurs

What is most important personal skills is required. No doubt Positive attitude is the most important skills because our mind thinks based on the way of looking the situations, so if one look's in a positive will absolutely get positive energy which helps to motivate himself.

**D. Why most of the start-ups fail?**



Fig. 19. Why most of the start-ups fail

This is most important question for survey respondents. Most of the user says is 'Lack of knowledge in their field'. It's true because most of the young entrepreneurs start start-ups but they don't have not much knowledge in their field. And second most reason why start-ups fail is Lack of management and Miss leading marketing'.

**E. Research on why do startups fail?**

The FRACTL company basically marketing company. 'Why do start-ups fail' subject on research is conducted by FRACTL research company. Actually, FRACTL looking for basic mistake of startups.

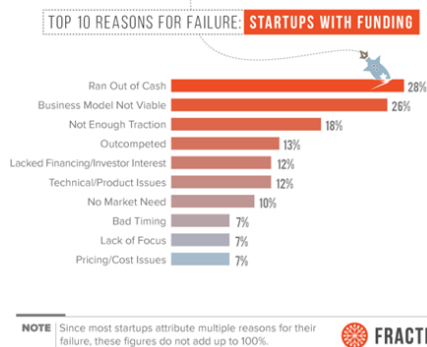
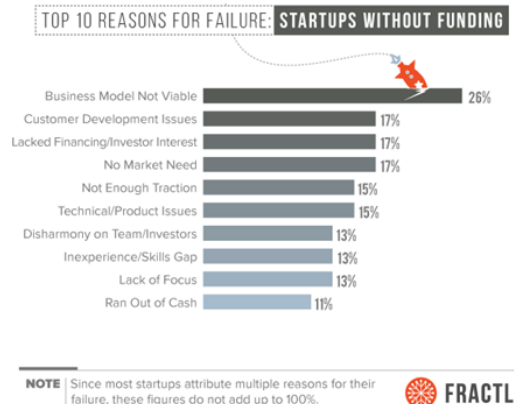


Fig. 20. Startups fail with funding

Above in case research is performed on start-ups with funding. In this research most highlighted issue was 'Ran out of cash' that means in start-ups most important is running cash flow. And Twenty-Eight percent of start-ups was fail because ran out of cash. Twenty six percent of start-ups facing issue in Business model.

They have not good business model.



NOTE | Since most startups attribute multiple reasons for their failure, these figures do not add up to 100%.  **FRACTL**

Fig. 21. Startups fail without funding

Above in case research is performed on start-ups without funding. In this research is researcher found Business model not viable is bigger issue. And second is customer development (new customer) also biggest issue for start-ups.

FRACTL researcher survey on Two types start-ups company. Where One start-ups company is funding and Other is without funding. FRACTL analysis both start-ups company having common mistake, which causes to fail.

**6. Conclusion**

In this paper, A close analysis of reason for start-ups fail. It helps to understand what was the basic mistake or issue on start-ups. According to the start-ups survey by Business Value and Oxford Economics in Indian start-ups fail withing first five years.

In this research added lack of pioneering innovation is major reason for start-ups failure and most of the start-up's copycat idea of the west countries. Due to most of the start-ups not able to make global market positioning. Example 'JUST BUY LIVE' is Indian start-up based on retailers to buy good directly from brands food, drinks, auto, smartphone etc. this start-up funded 699.25cr by investors but this start-up fail because reporter says un-scalable business model and negative cash flow.

Like this many start-ups fail 10 most common issue. This research paper describes about start-ups failure reason and guide to avoid such scenario. Founder of start-up should be aware of this information. In this research we discussed about major issue of start-ups need to accordingly plan business model to avoid such issue. The Indian start-up industry is beaming with new ideas and immense talent.

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