Why Startups Fail
By Jon Pelzer

Remember the all-consuming startup pitch deck? New products or services that have all the markers of success: *Protectable…Scalable…Profitable…Doable*. Principals with brilliant pedigree and successful track records. A market opportunity that's undeniably rich and entirely underserved. It is the only true solution to this gigantic problem! It will succeed where others have failed and deliver an exceptional ROI which is only on a tiny fraction of what is most likely to happen. Sound familiar?

Why then do 90% of startups fail? Because the worst-case-scenario was either not anticipated or most likely, somebody along the way raised the red flag and it was not adequately addressed.

Worst case scenarios are most often encapsulated in the conservative forecast but rarely articulated in terms of preplanned turnaround strategies. For example, if the startup cannot gain market traction, a discount in the forecast does not solve the market traction problem. The forecast usually assumes smart people will do the right things whenever problems arise.

Shrewd investors can find out whether startup leaders have ever dealt with potential worst-case scenarios. Maybe startup leaders learned what not to do by failing at least one time! Take note and be glad they are on the team!! It could be that some leaders are not experienced enough to handle the scenario, or worse yet, are not experienced enough but assume they are.

In addition to important pitch points, pitch decks can call out barriers to success and crisply articulate smart turnaround strategies. Turnaround strategies might, for example, include what happens if market traction takes far longer than expected. Are there stop gap revenue generation ideas to be had while solving the traction problem? Is it possible that the market traction problem is not a product problem but a process, people, or leadership problem?

Maybe a large percent of startups should fail but I would argue that more will succeed if they address worst case scenarios head on and bring some comfort to the deciders table.

Over my career I have worked with and witnessed the fates of dozens of startups. Some were venture backed. Some were ventures supported by large corporations. Some were seeded in hopes of more rounds after proof of concept. A common denominator across all the failures was that company leaders assumed to know things they didn't know or didn't know what they should have known. Also, I observed that bad decisions or directions may have been prevented if only the leaders took time to listen and learn from the market, advisors and/or its employees.

Case Example

Long before mobile phones offered driving directions, I was involved with a start-up who manufactured GPS systems for automobile installations. The cost to the consumer to own these products hovered between $3,500 and $4,500. The theory was that there was bound to be enough consumers who had enough money and motivation to buy. The forecast layered in this assumption to allow time for volumes to increase and for price points to drop. It turned out to be a faulty strategy, not to mention an operational nightmare to provide consumer direct installations. The client was advised to diversify, to develop relationships with luxury car makers and have them offer the units as upgrades. The leaders did not listen to this sound advice. Although this startup failed, another took its place and implemented the luxury car channel strategy. The new start-up's strategy was very successful, and GPS eventually became a standard feature for all types of automobiles.

One area my consulting practice focuses is to help new ventures or investors improve upon their worst-case scenario forecasting and revenue turnaround strategies. Send me a message if you would like to schedule a casual conversation to start.