# Why Start-Ups Fail

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In this era of unicorns and hot IPOs, it's easy to get caught up in the stories of start-up successes. But start-up failures are far more common. CB Insights found that 70% of upstart tech companies fail. And consumer hardware startups fail even more frequently, with 97% ultimately dying or becoming "zombies." The CB Insight analysts wanted to understand why so many start-ups fail, so they dug into the "post-mortems" written by founders, investors, and journalists of nearly 300 start-up failures. Here's what they found:

The number one reason why start-ups fail was "no market need."

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**Nine of the top 20 reasons for start-up failures – and five out of the top 10 – were related to customers** – not meeting customers' needs, not listening to them or even ignoring them.

In fact, the number one reason why start-ups fail was "no market need."  In other words, there was no customer.  That's what the founders of the failed Treehouse Logic, a visual configurator platform company, discovered. They wrote, "Startups fail when they are not solving a market problem…We had great technology, great data on shopping behavior, great reputation as a though leader, great expertise, great advisors, etc, but what we didn't have was technology or business model that solved a pain point in a scalable way."

Another customer-related challenge that felled start-ups was product design that didn't meet customers' needs. A founder of GameLayers blamed its failure on this. "Ultimately I believe

PMOG lacked too much core game compulsion to drive enthusiastic mass adoption," he observed. They needed to "make something that was easier to have fun with, within the first few moments of interaction" instead of getting caught up in more "abstruse" features.

If only the start-up founders had listened to the customers they were trying to serve. The folks at eCrowds, a web content management system company, admitted not prioritizing customer input, saying, "We spent way too much time building it for ourselves and not getting feedback from prospects — it's easy to get tunnel vision." Similarly, VoterTide founders wrote, "It's easy to get tricked into thinking your thing is cool. You have to pay attention to your customers and adapt to their needs."

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**Nearly the same number of reasons for failure – seven of the top 20 -- were related to the people and/or culture of the company.**

Sometimes failure was the result of not having the right people on board. The founders of Standout Jobs wrote in their post-mortem, "...The founding team couldn't build an MVP on its own. That was a mistake. If the founding team can't put out product on its own (or with a small amount of external help from freelancers) they shouldn't be founding a startup."

Other times, the lack of alignment among the founders and/or their investors was to blame. In a lengthy recap of what happened at web development firm ArsDigita, cofounder Philip Greenspun explained several points of misalignment between him, other company leaders, and the company's VCs, including partnership deals, product new rollout timing, and organizational structure.

The lack of focus or passion or both doomed other upstarts. The postmortem for MyFavorites observed that, "Ultimately when we came back from SXSW, we all started losing interest, the team was all wondering where this was eventually going."

**Of note, only two of the top 20 reasons that start-ups failed was due to money, or lack thereof.** It's not surprising, though, if you think about it. Business is fundamentally a human endeavor – humans trying to connect to other humans. Products, technology, business models, funding – success in these dimensions are the result of getting people right. So ultimately start up success comes down to people – the people inside the organization and the people outside it (customers).

Oftentimes the lack of integration and alignment between these two groups of people is why start-ups fail. The biggest, most tragic failures happen when people inside the company don't care about customers, or don't cultivate a culture centered on the customer. Take NewsTilt, a news website for independent professional journalists. It failed less than two months after being funded by Y Combinator because its founders weren't interested in the domain they had built their company around -- and that led them to produce a product that didn't meet customers' needs.

One of NewsTilt's founders confessed, "I think it's fair to say we didn't really care about journalism. We started by building a commenting product which came from my desire for the perfect commenting system for my blog. This turned into designing the best damn commenting system ever, which led to figuring out an ideal customer: newspapers...But we didn't really care about journalism, and weren't even avid news readers...And how could we build a product that we were only interested in from a business perspective."

Let these findings serve as warnings for aspiring entrepreneurs. People must be your priority and they must be aligned. Your customers and your people drive your business. Ignore them at your own peril.