

# Most Common Reasons Start-Ups FAIL

by Susan Barich

(And How to Avoid Them!)

There are three main reasons start-up companies fail according to Jim Robbins, principal of Business Cluster Development, the company that has contracted with the City of Marina to develop and manage the Marina Technology Cluster. Robbins' comments are primarily directed to companies in the Technology sector, but anyone starting a small business will benefit from what he has to say.

## Reason #3 Undercapitalization

"Most people think undercapitalization is reason number one why businesses fail," said Robbins, "but in my experience, this is the third reason."

There are several reasons for not having enough money to reach commercialization and the market. Many people underestimate how long it will take. They think they can get to market in under a year, while two to three years is the norm. Those who do secure venture capital, angel or other investment often do not ask for enough to cover unforeseen problems that inevitably arise.

Be sure that your pro-forma financials include plenty of money for contingencies, and that you can justify those expenses to your funder. Also, do your business planning for the worst-case scenario in terms of time and contingencies. You might not need the extra money if the worst-case does not materialize, but you'll be grateful you planned for it if it does. And your funders will be happy, too. You will be demonstrating that you have their best interests in mind by planning for the possible downside instead of letting it bite you in the backside and losing all their money. Remember, securing capital investment or revenue from

sales can be a long process – two to three or more years. Expensive stuff will happen somewhere along the line.

And plan for the expense of good staff. Don't think you can do it all yourself. Be sure you can pay for a good temp or administrative assistant who can follow up with your excellent sales efforts and field customer service calls. And then you'll need enough to cover manufacturing while you're waiting for cash to flow. Cash flow is the life-blood of your company; make sure you have funds to bridge lean times.

• Tip: In preparation for your venture, save enough money ahead of time to go it alone for two years, plus pay for outsourced help for getting grants, equity funding and staff.

• Tip: Small Business Innovation Research (SBIR) grants are available for technology concept development from any federal agency that does research. First phase is good for about \$75,000, but it could take up to 9 months to receive the cash.

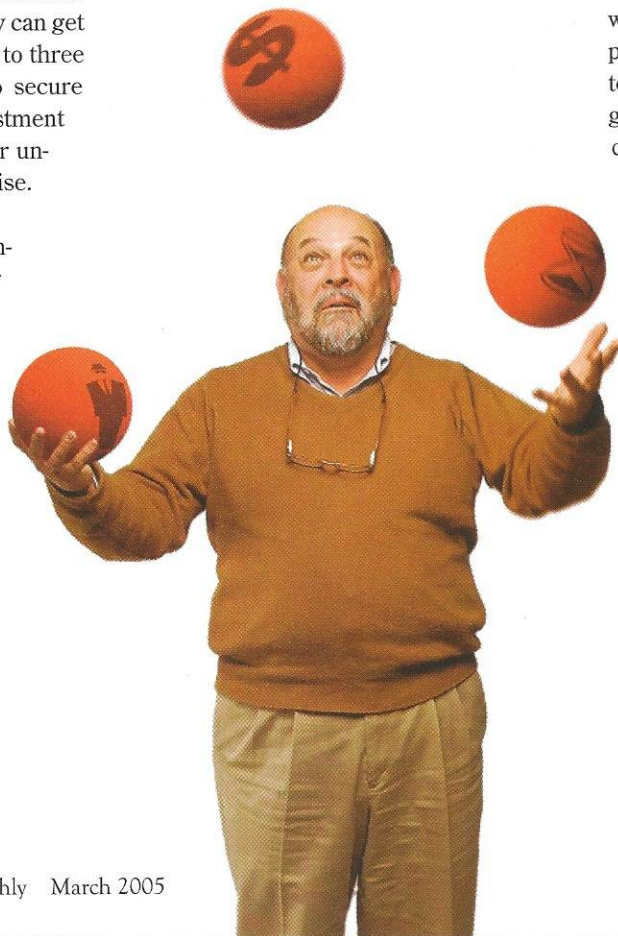
• Tip: Outsource your essential staffing needs to a good temp agency that can cover employee taxes and benefits.

## Reason #2 Getting too far down the line on product development before asking real customers exactly what they really want

Robbins says that the second reason companies fail is because they put too much time and money into the development of a product that is simply the wrong product. Meanwhile, someone else has checked out the potential users, introduced the right product to the market, and leap-frogged the guy or gal who didn't do their homework with the customers.

Check with real customers – people who will really be using your product or service – while you still have a chance to adjust your product to their needs and wants. Ask them what they want, how they want it and what their price point is, then tweak your product and price accordingly. Venture capitalists will also want to see that you've done your homework with your potential customers, have data on their responses and understand your market thoroughly. Funders will flip immediately to the market assumptions in your business plan. If they are satisfied with them, they will read further.

This research may be done as easily as standing on a street corner or in a mall and asking potential customers what they want and how much they'd pay for



it. Or you may talk with a local university about having students do market research for you on an internship basis. These internships can be paid or unpaid, depending on the value of the project to the students and staff. You can find business students at the University of Santa Clara, San Jose State (SJSU), Cal State University Monterey Bay (CSUMB) and the Monterey Institute of International Studies (MIIS). University of California, Santa Cruz (UCSC) has an Economics Department that may be helpful, as well. There is usually no central university source for interns. You'll have to call the business school, department or college.

According to a technology commercialization model developed by Randy Goldsmith at the San Antonio Technology Accelerator and Tom Walker at the Oklahoma Technology Commercialization Center, do the market research at the very beginning of your business development during the investigation phase—when you're doing the technical analysis of your product.

- Tip: Check with real customers before you put too much work into your concept. Then adapt your product or service to the market need.

- Tip: Check early and often with potential customers.

- Tip: Tap into local and regional colleges and universities for business students who can help for little or no fee as a class project.

- Tip: Market research and the right assumptions are essential to obtaining equity financing.

### Reason #1 One person trying to run a company by him or herself far too long.

The number one reason start-ups fail, according to Robbins, is that the principal technologist tries to run the company by him or herself far too long. Find a partner, get engineers to work for equity, or tap into local networks for mentors. Working alone once a proof of concept is completed usually leads to mistakes, delays or lack of focus that could be avoided with a little help.

Networking into experts who can give you advice on financials, partnerships, fund raising, debt finance, executive coaching and sales. Put a board of advisors together early. It takes many kinds of expertise to grow and run a company that actually sells a product into the marketplace. By creating a board of advisors, you spread your challenges out among people who have the know-how to address them before they become problems. Letting others take some responsibility for the part of the company they enjoy working on gives you the freedom and security to perfect your product.

So where do you find the folks who can help you keep your company moving toward success in the market? Just about every business role has an association. PRSA is the Public Relations Society of America for public-relations experts; WIC is Women in Communications for marketing expertise. There is even an organization for CEOs in San Jose called SVASE, Silicon Valley Association of Start-up Entrepreneurs, where you just might find the perfect CEO for your start-up. Many networking events are listed on Craig's List at [www.craigslist.org](http://www.craigslist.org).



Business incubators are a great source of networking and a variety of expertise, as they develop "stables" of talent for their participating companies. There are several business incubators in the San Francisco Bay Area, and two in the Monterey Bay Area. Most incubators maintain "affiliate" memberships for those who cannot locate physically in the incubator. You can use this affiliation to take advantage of the incubator's executive experts and receive consulting help from the incubator staff and consultants. Even a phone conversation with a good advisor can be vital to your survival.

- Tip: Put a board of advisors together early from professionals at association meetings whom you can get excited about your company.

- Tip: Networking events for finding advisors are listed on Craig's List.

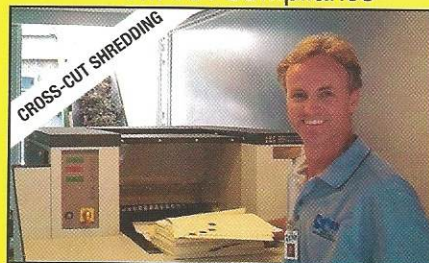
- Tip: Join a business incubator as a resident or affiliate member and take advantage of their programs and advisor networks.

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