Avoid Becoming the Next Start-up Roadkill

by Brenda Lewis, Transactions Marketing, Inc.

After 30+ years of launching mission critical mobile enterprise ventures, I keep seeing the same basic mistakes in new venture plans. I began to wonder if mobile was unique (demand grew 81% last year with big chunks of VC money being thrown at me-two and me- three ventures), so I started looking for formal research on WHY ventures failed. I did not find a lot out there, so here is my own short list:

1. Management, management, management. A whole array of failures lie at management's door: Lack of common goals, wrong skills mix, inventor v. business mentality, lack of risk assessment, et.al. Start with your personal objective. Why do you want to start this venture? Money ? Fame? Boredom with early retirement? Do you want to build a billion dollar business (i.e., venture fundable) and ring the bell at the NYSE with an IPO? Are you looking for a lifestyle business or a small local business to serve your community? This self-examination is vital; it will determine who invests in you and if you are able to obtain external investment at all. Let's say you want to build a billion dollar business. Unless you are a famous serial entrepreneur, one man bands are a non-starter: they increase risk. You'll need to form and build a team with balanced skill sets and experience relevant to your chosen market opportunity. It's a plus if your team have worked together before; this reduces investor risk.

Investors invest in management teams not technology. A technology can be leapfrogged. If that happens, investors expect a seasoned team will be able to repurpose their IP to serve another market. Choose your team with care. Start-ups are notorious for chewing through not just money, but people: marriages, friendships, health are often casualties. When you build that management team make sure you all *share* the same goal or at least parallel compatible ones: talk about goals, write them down, talk to your spouse and family advisors. The team needs to run through contingency plans together. You are going on a voyage into uncharted waters and like the weather, the economy is unpredictable**. Ventures need** a business risk assessment, yet 99% of the new ventures I review do not have one. On the other hand, I have never met an investor who didn't want one.

2. Lack of Market Mastery. Serial entrepreneur David Skok, Managing Director at Matrix Partners, has blogged that failure to understand and define your market is the #1 reason ventures fail. I'd still vote for management as #1, but market mastery is right up there. If you have a breakthrough technology or service (a "greenfield" offering), you need demand research. **You need to know more about the market segments, demographics, geography, buying influences, distribution channels, competition, regulatory environment, IT and security issues than anyone on the planet.** Be obsessive in quantifying it. This should be a principal use of friends and family money: validating your market before you wade in with a whiz bang that no one will buy or software that fills no need should to be done *in parallel with your provisional patent* if not sooner. And that quest for market mastery never stops; you can never know too much about your customer or the competition. A common mistake is looking only at competition that is in the market, rather than who can enter the market. I would say 90% of the competitive frames I look at are inadequate because they focus on product and service features to the exclusion of strategic market positioning. You will want to ask yourself: if I build this, what company will buy my venture? Be prepared, for investors will ask that.

3**. Business Model Does Not Make Money.** Customer acquisition is never free. You need to figure out how to generate both cash flow and profits net of customer acquisition. Grounded in your mastery of the market, you must develop the compelling value proposition, positioning, revenue model and go to market strategy that will differentiate you from all others and generate a profit. Commit your strategy to a detailed business plan with metrics to determine your progress. Start with the plan and distill the teaser and slide deck for investors, not the reverse, as we so often see. Use the plan as a working tool to assess targets of opportunity and/or custom applications which may divert resources. Again, let's assume you are looking to build a billion dollar business; you will have to figure out how to scale it. One of the most common business model mistakes is failure to determine the length of the sales cycle. You cannot estimate the cost of customer acquisition or scale a business without that. In today's compressed product and service development cycles, you will need to estimate customer acquisition costs (people, marketing, support) well before you seek external funding. The earlier you formulate a sustainable plan, the more readily you will attract a team, investors and beta customers.

These are just a few of the many and varied reasons why ventures fail and will hopefully prove helpful as you start out. You will need all the help you can get: tech ventures start with long odds. In my web search I found a CB Insights blog (January 18, 2014, **The RIP Report: Startup Death Trends** http://www.cbinsights.com/blog/startup-death-data). 55% of failed startups raised $1M or less; almost 70% companies died having raised less than $5M and 71% of dead companies lasted an average of 20 months after their last funding round. Don't let your start-up end up as roadkill. Start early with friends and family funding to assemble your management team with care and perform a business risk assessment, undertake early demand research for market validation and formulate a sustainable positioning and business model grounded in measurable customer acquisition costs. Good luck!

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