
STARTUP
SURVIVAL
SECRETS
Why 70%
of Startups Fail
and How to Make
Yours Thrive
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Prologue

If you're thinking of starting a startup or you're already a startup founder, then this book is perfect for you. Through this comprehensive book, I cover in-depth why startups fail, how to avoid doing the wrong things, and how to succeed with your startup.

Startup Survival Secrets is based on a CB Insights post-mortem study of the top 20 reasons startups fail and I've thoroughly analyzed the reasons and determined over 60 root causes from the top 20 reasons.

Why is this book based on the CB Insights study and not others?

For starters, the study is based on real data from startups that have failed and it's not just based on insights from bloggers and entrepreneurs.

Initially there were 50 post-mortem venture-backed startups that participated in a study citing the reasons why they've failed.

But, CB Insights kept continuing the study over time. 101 startups were examined, and then 178 six or so months later. Now, as of June 2017, there are 232 participants in the study.

In each chapter, I go through the root causes for each of the top 20 reason startups fail from the study. After, I explain why each root cause can make a startup fail. I tell you what to do instead so you can learn from and hopefully avoid such situations in the future.

Awareness is the first step for startup founders on the journey towards success. And it's important for you to understand the situations which arise before starting your own journey.

Jessica Livingston, a Partner and Founder at Y-Combinator, which is the first and most successful startup accelerator, said: "If you can learn what mistakes to avoid [from] other founders [who] say, 'don't spend your time doing this,' then why not learn from those [mistakes]?"

With this book, you are awarded the best opportunity to learn from other startups' mistakes so you can avoid repeating them.

Next, you can see the chart of the top 20 reasons why startups fail.

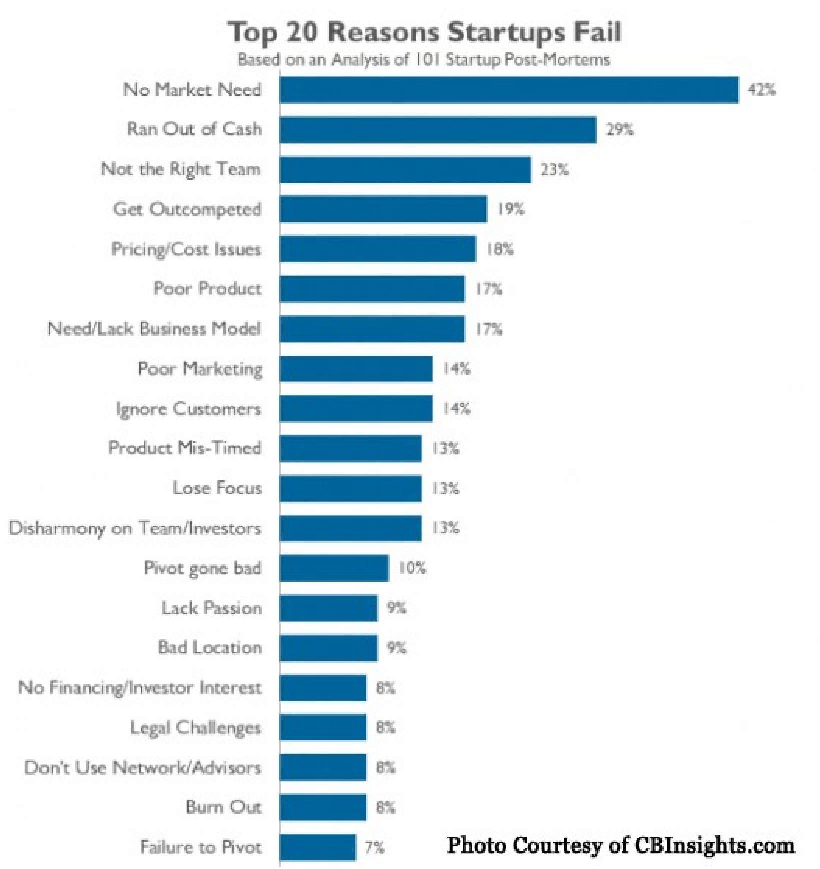


Photo Courtesy of CBInsights.com

The CB Insights study was a great insight into the mistakes that failed startup founders made and included personal viewpoints from the ex-founders as well as short anecdotes from the staff from CB Insights, but it just brushes the surface of the problems that startups experience.

The PDF report from the study is only ten pages long. The website has all of the stories from the founders.

Stories are good for insight, but they don't give you a structured analysis of why they really failed and what could have been done to prevent those blunders from occurring.

That's why I go in depth to explain the root causes, how to prevent them, and what to do instead so you can build an amazing startup.

However, I do provide some stories and real life examples to help emphasize some of the lessons.

Prologue Part 2: The Importance of Understanding and Preventing Startup Failure

Why is learning about startup failure important?

Understanding startup failure is important because we have millions of startups worldwide launching each year and there are major deficiencies in the learning process of how to start a startup the right way and huge deficiencies in running a startup the right way.

Too many founders are making the wrong decisions and it's costing them and their families their livelihood.

Your life and livelihood is more important than a startup idea.

So if you're going to start a startup, then you ought to know the risks of starting one and why they fail.

And if you're devoting your life to your startup, then you're going to want to make the right decisions that will make your startup run smoothly and create consistent profit.

Without educating yourself and investing in learning and development, then you won't achieve that result and you're probably going to end up in the startup graveyard.

Most people would agree that a business that had to close down because they couldn't make ends meet, is a failed business.

That's true, but in fact, there's much more to it that doesn't necessarily have to do with money.

Here are some other ways startups can fail:

- Startups that couldn't even launch have obviously failed.
- Startups that launched but couldn't get any customers have failed.
- Startups that get customers but can't retain them fail.
- Startups that split up due to issues with co-founders and/or investors fail.
- Startups that get outcompeted and out-witted fail.
- Startups that blow all of their money fail.

There are even more reasons why startups fail, and in this book, we'll go through them all.

Now to help you understand the magnitude of and wide-spread problem of startup failure, I'm going to talk about the startup failure rate.

What is the startup failure rate?

Well, it's actually a somewhat hotly contested topic. Many say 90%, 75%, 70%.

Even the lowest projection, 70%, is an incredibly high amount of startups failing.

According to Neil Patel, the #1 marketer in the world, and founder of four multi-million dollar startups, 90% of startups fail.

There are many other startup industry experts whom have also said that 90% fail.

Startup Grind, a global meetup ecosystem for startups which is powered by Google, has an article that further establishes the overall 90% startup failure rate, as well.

However, the 90% startup failure rate has been contested and could be inflated due to unsubstantiated data. Maybe it's true. We don't actually know.

It's been found that about 70% of venture-backed startups fail, according to CB Insights. They track all venture-backed startups, so their data is pretty accurate.

One might think that venture-backed startups should have a much lower rate of failure because of the support they receive, but the underlying problems that startups have are so bad that it extends to this cohort of people too.

The United States has its own data, and the data set for the U.S. is definitely far from complete.

The rest of the world is even more difficult to gather comprehensive data on. Startup failure rates could be much higher in some countries and lower in others.

According to the U.S. Small Business Administration in its frequently asked questions section, "About half of all new establishments survive five years or more and about one-third survive 10 years or more.

As one would expect, the probability of survival increases with a firm's age. Survival rates have changed little over time."

Now that we've established the enormity of the startup failure rate, I'll discuss how many startups fail each year.

In the United States alone, according to the Bureau of Labor Statistics, every year approximately 525,000 businesses launch, and this number has been stable for over 10 years now except for 2016, which experienced a dip of about 100,000 launches.

However, the numbers and percentages on startup failure worldwide are unknown.

If you apply the 90% failure rate metric towards the amount of new businesses that start up each year, then approximately 495,000 startups and entrepreneurs go out of business in the United States each year.

But, if you apply the 67% failure statistic towards the amount of new businesses that start up each year, then about 351,750 startups fail each year in the United States.

Any way you look at it, that's a lot of people from the workforce that could be succeeding, but they're not. They're failing, and it doesn't have to be that way!

The business and startup community needs to become educated on why so many businesses are failing and what can be done to prevent them from getting into the situations that cause their startups to fail.

It starts with education and the constant desire to improve yourself and improve your company.

Innovation, creativity, and learning, are at the core of what makes a winning business. But without this mentality, any startup will, without a doubt, fail.

A Side Note to Keep in Mind

While you read this book, you'll see percentages next to each main reason why startups fail and they will add up to **over** 100%.

This is because the participants in the study from CB Insights were able to pick multiple reasons to why their startups failed according to the founders.

Moreover, in each chapter, I go from the top reason why startups fail to the last reason why startups fail, in descending order.

Chapter One: No Market Need (42%)

Root Cause 1: No Product-Market Fit

When you build a product or service that's exactly in line with what your target customers need and want, then you have what's called product-market fit.

The number one reason startups fail is because they don't have product-market fit. So it would make sense that before you start building your product, make sure it's something that your target users want.

Instead of building a startup based on an idea without substantiating whether it's good or not, you should always go through the following process of initial idea validation:

1. Build a customer profile or multiple customer profiles.
2. Do your market research to gain insight into the market size, statistical segments, and search for any [more] gaps in the market to use as unique selling propositions.
3. Perform a thorough competitive analysis.
4. Develop a marketing strategy which includes and shows your user/customer acquisition channels and/or distribution networks.
5. Create a business model that will indicate how the company provides value and solves a problem its target users face and how it will be fiscally sustainable.
6. Collect feedback from people who are in your target market. When asking them, tell them that you noticed that they were in xyz space and that you respect their opinion and would like to get some feedback from them about an idea.

   If they say yes, then ask them for their honest opinion if your product/service idea is something they would use and buy. Why or why not?

Doing these activities are the process of idea validation and it is absolutely necessary for every startup to do.

You won't regret doing them and everything that you just did above will be very helpful for you down the line.

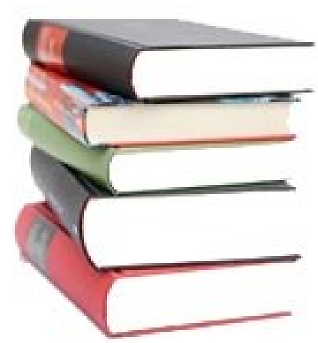
This is because you'll need access to that same information for creating materials like your pitch deck, executive summary, and pricing page.

Moreover, the above activities are also part of the crucial building blocks of your startup.

Root Cause 2: Founders Aren't Experts in Their Target Industry

When the founder(s) aren't well-versed in the field they're trying to make their product or service in, then that inexperience usually causes them to build something that the market doesn't want.

Each work year is 2048 hours. It's said that mastery of a subject takes 10,000 hours of time. That's approximately five years of full-time work. That's a lot of work, don't you think?



Naturally, some people have talents which may make their learning process easier, but major hard work is still necessary to become an expert in any industry.

If you're trying to break into an industry you're not familiar with, then read as much as possible about the industry until you become well-versed in it.

And then keep up with weekly reading/learning to keep you sharp and to continue with your progression to become a great startup founder.

Additionally, you should talk to people in that industry for better insights and try to get a mentor that's willing to teach you more about it.

Moreover, it's important to do this before you start building your startup. You'll probably come up with even more ways to improve upon your idea after learning more about that industry.

Root Cause 3: Founders Can Be Arrogant

Founders often think their idea is amazing and their startup idea will be a hit without doing their research and they'll just build their product anyway. If you do this, you'll fail.

Such a callous attitude is arrogance at work. Even if you have solid experience in your target market, your target customers might not think the same way you do, and it's very possible they won't care about your product or service.

Additionally, there may be competitors that you don't know about. It's imperative to do market research, competitive analysis and customer discovery so you can determine if you're even close to product-market fit.

You must do these things. If you don't, then you'll likely be wasting your life on something that nobody wants.

I’ve seen what this arrogance has done to people who haven’t done any research and it practically destroyed them.

Not only did their startup fail, but they wasted so much of their time developing to find out that nobody wanted their product. It ruined relationships because of it, too.

Arrogance can lead to lying to cover your own tracks, and this will create an impossible situation that’s no good for anyone.

If you don’t set your arrogance aside, then you can be seriously damaging people’s lives, such as any employees you may have or co-founders you’re partnered with.

When I had my idea for my startup, StartupDevKit, I spent two full months of idea validation doing the following:

- Researching statistics
- Finding data on market size
- Finding out the rest of the issues startups face that I didn’t already know about and if the issues and problems were being solved by a company already
- Looking to see if my idea was unique or already done
- Learning about potential competitors
- Identifying all of my competitors’ pricing and their success levels
- Researching all of my competitors’ marketing activities on search engines and on social media as well as signing up to their email lists
- Organizing, collecting, and writing down all of the information I found
- Creating business models including pricing models for StartupDevKit

- Talking to target customers, asking them what they thought of StartupDevKit, and if they'd buy any of my kits.

Everyone's time is precious. Value your time and that of others and take the idea validation process seriously.

Do your research, competitive analysis, create your business model, talk to target customers, and validate or invalidate your idea.

You can then, and only then, be truly informed about how to make the best decision whether to move forward or not. Don't let arrogance cloud your judgement and ruin your startup.

Root Cause 4: Fear of the Unknown

Customer discovery is so important, yet some founders are afraid of what answers or objections they might find.

So, because of fear and cowardice, founders don't do the legwork and wind up not knowing whether people would use their product/service or not.

Do what Nike says: "Just Do It." If you approach lots of your target customers about your startup idea and nobody likes it, then that's great, because it's better to fail early on prior to investing your precious time, money, and energy into building it.

I implore you to do whatever you can to prevent fear of the unknown from affecting your judgement.

Letting fear take a hold of you is the mentality of a coward.

Instead, have the courage of a victor to meet fear face-to-face and overcome your mental obstacles. Don't let it take you over.

Our accomplishments as humans are because of the obstacles we've overcome, not what we've failed at doing.

Every person is innately capable of doing amazing things if we are determined and if we put our minds to a task. This applies to anything in life.

Target customer discovery is so important during your idea validation process.

If you can't approach people in person and online to talk about your startup idea, then you are going to miss out on a lot of great opportunities. You miss 100% of the shots you don't take.

A good startup founder has to be the leader that leads by example and serves as a role model for the rest of his/her employees.

A CEO of a startup or of any company is a public-facing role. You don't want to be the "Richard Hendricks" of your startup (from HBO's Silicon Valley) that's too afraid to say what needs to be said, and too afraid to do what needs to be done.

You'll have to pitch to investors, lead meetings, talk to press, work on new business development, etc.

How do you start this process of overcoming your fears of the unknown?

You can start by writing your fears down on paper. What is holding you back? This requires you to be brutally honest with yourself, however it's really important for making yourself the best person you can be and for winning with your startup and in your life.

The next step is the realization that in startups and in life, if you want to advance in anything, then you'll have to become comfortable with going out of your comfort zone.

Eventually with practice, those areas that were once out of your comfort zone become part of your comfort zone. And then you keep progressing forward and winning at life.

The next step for you is to research and learn about best practices regarding what you are afraid to do. When you become educated about it, you're much less likely to be scared of it.

This applies to your target customer discovery.

When you research about who your target customers are to learn about them and make your hypotheses about who target customers are, you are setting yourself up for success. You're educating yourself about those individuals.

Then, when you learn about how to approach people and how to pitch your idea, and you practice it on your own, then you will become more confident in actually doing the approaching. Finally, all you need to do is test your hypothesis and talk to people!

I have applied this into my own life many times before.

Here’s a short story about how I overcame a fear of mine:

I love rock climbing and I was once really scared of heights, but I wanted to do taller climbing routes.

I was scared climbing up hundreds of feet of rock, but before I did, I became educated about how strong the gear was and that I should place trust that the gear will not fail.

However, I learned about the level of experience that the guides had and that became reassuring to me that I was in safe hands.

Moreover, I trusted my skills and that I was more than capable of climbing the routes that we picked, which were based upon skill-level, because I had been climbing in local climbing gyms and shorter outdoor routes for a while.

And then once I sat on the ledges looking out, I realized that I had no reason to be scared because of the trust in the process and people.

And as a reward, the enjoyment of climbing and of the amazing views were more than worth the anxiety I faced beforehand.

In conclusion, by analysis, learning, realization, practicing, and finally doing, then you can get better at anything!

Chapter Two: Ran Out Of Cash (29%)

Root Cause 5: The Burn Rate is Too Fast

When startups outspend what they earn and become reliant on investors, this is a common reason why venture-backed startups fail.

For venture-backed startups: Just because there’s a runway of one to two years of capital before you run out, it doesn’t mean that you should spend it carelessly.

Any financed startup has a huge opportunity to use that money wisely and in a way that will earn the startup and its investors a great return on their investment.

So many startups burn through capital for development costs, agency costs, offices, swag, and paid ads.

When that happens and they run out of cash, they can easily go into debt if they start relying on credit cards.

However, when there’s no liquid capital, startups often have to start firing people or tell new hires that they can't pay them anymore (or at the moment)—giving them the option to stay and wait until they can be paid or to leave to look for another job.

You can avoid this by carefully watching over your finances and only using services and hiring people that are absolutely necessary.

One of the largest business expenses, especially early on, is the cost of renting real estate. Office space is expensive and always requires additional services. Perhaps you don't need to rent your own office.

Co-working spaces have sprung up over the past several years to provide a cheaper alternative to paying thousands of dollars a month in rent for spaces you may not even need.

There are usually shared desks, dedicated desks, and the option to have your own private smaller-sized office within the co-working space.

Another way to prevent yourself from running out of cash is to do growth hacking experiments. Test the effectiveness of a marketing campaign by doing split A/B tests, multivariate testing, and use copywriting best practices.

When you scientifically test what works and what doesn't, then you can control how you spend your money and your time. And isn't time, money?

Either way, do what you can to reduce unnecessary expenses. Be frugal and only pay for things that provide maximum value to you and your company.

Root Cause 6: Scaling Too Quickly

Startups will run out of cash if they scale too prematurely or hire too many people too quickly.

When that occurs, the startup's finances take a nose dive because all of their money goes to payroll. This happens often due to inexperience with scaling.

The cost of hiring full-time employees is very high. Not only do you have to pay their salary, but benefits are often expected. Benefits can easily cost another $10,000 on top of their salaries.

In addition, by scaling too quickly, you're not setting clear expectations for each role and how they will immediately contribute to your business's bottom line (profit).

If you did, then you should be making a return on your investment from hiring them.

The benefits you gain from hiring each employee should outweigh the costs of paying them. Maximize your returns.

Then there's an on-boarding cost of training (time = money) and overseeing them but not micro-managing them (more time).

For instance, let's say you want to develop new features for your SaaS that you think will help you get more customers.

Figure out how much you believe having those new features will add to your profit margin.

Then you research to find out if hiring a full-time in-house developer would be cheaper than using an agency or freelancer.

You should be getting multiple quotes. Then you are going to be making a wise decision when the process is finished.

Rather than blindly and quickly hiring a handful of developers without figuring out the costs involved, you should take your time and not get over-zealous.

You want to have clear and reasonable expectations of the role. The same should apply to marketing personnel and any other employees. Employees are by far your largest cost in the early startup stages.

In conclusion, the best practice to scale your startup is for all new hires to be carefully selected, incrementally added. Build up your business within the limits of your personnel and only hire when there is explicit need.

Root Cause 7: Too Much Business & Not Enough Personnel

Startups can also do too much paid marketing and take on too much business at once without having enough personnel to meet demands.

Yeah, it's kind of a good problem to have, but at the same time not good. You don't want to over promise and under deliver.

You want to under promise and over deliver, if anything. By not being able to support customer demands, you're possibly ruining relationships that you could have had with your customers.

When your business crumbles beneath your feet because you don't have the proper infrastructure set up, you won't be able to do so much good will you?

For instance, if you get seed funding, don't go and spend $500k on marketing if you don't have the infrastructure to support the customer demands that will come along with it.

In conclusion, the best practice is to scale carefully and within your limitations. Spend accordingly with the size of your team and the demands they can meet.

Root Cause 8: Didn't Fundraise Enough or at All

Startups often run out of cash and fail if they didn't fundraise enough or at all. It's important to have some seed money to get things going, even if it's not from investors.

Think of money for a startup like a lubricant for an engine. It helps to make things run.

To start a startup you will always need some money to pay for critical services, so if you're broke with no job and want to start a startup, then get a job and hustle to get some personal seed money.

Then you can use it to fund your startup in the early stages.

If you want venture capital investment, then you'll definitely need some traction with your product if you want to get money to fund your growth.

In order for venture capitalists to invest in your startup, they are going to want to see your startup reaching a $300 million dollar valuation or higher.

If your startup doesn't have that kind of future ahead of itself, but it might reach $25 million or $50 million dollars in valuation, then you still have a great idea. Just not what a VC is looking for, that's all.

Angel investors, on the other hand, are different and will invest into startups with lower possible future valuations.

The average venture capital seed investment round sits around $2 million right now.

You might wonder -- what's traction?

Traction is having significant user interest via signups, whether email or purchases of your product or service.

The best metric for traction is always via purchases, but if you're pre-launch, then email signups as a metric will suffice.

So how can you get some money to start with so you can pay for marketing ads to help you build more traction?

- Ask friends and family for money
- Use your own money
- Crowdfund
- Do pre-orders
- Get angel investments
- Get seed investment

Root Cause 9: No Plan for Making Money

A startup will run out of cash if it doesn't have a plan for making money with a net profit. You create a business to make profit. If you don't understand this, then you will fail.

To avoid this root cause for startup failure, start making a plan on how you'll earn money. First, you start by calculating all of your expenses including salary.

Do the math to find out what you need to charge for your product(s)/service and how many sales you have to get per month to pay for all of your overhead and still earn a net profit month after month.

A tactic to avoid paying for full-time employees is to use consultants instead. Then you won't have to pay out any benefits or unemployment after they stop working with you. Virtual assistants can also be quite helpful.

Make sure your business model will work before you start a business. It's that simple, but also crucial to your survival at the same time.

If you can't make ends meet and make a profit with your business model, then don't start a startup.

The topic of the business model will be talked about in more detail within a later chapter of this book. You'll learn the elements of what makes a great business model.

Ideally, you want to have at least 40% of profit off of each sale.

Remember that you need to be competitive in pricing, but not too low, as it would likely undermine the value of your product or service.

So make sure you have a plan for making money and enact it so you don't run out of cash!

Chapter Three: Not the Right Team (23%)

Photo by Pete Linforth

Root Cause 10: Skill Imbalances

When a team is weighted too heavily in an unneeded area of expertise, it causes a major imbalance of skills. Instead, skill sets should be balanced as much as possible based on the needs of the startup.

All skills in one area of expertise is the wrong makeup of a team because in order for a startup to work properly, you need a balance among the skills needed to build, launch, run, raise funding, and grow a startup in many ways.

While it’s possible to outsource a significant amount of needs, such as marketing, PR, web/software development, and even customer service, it’s really quite expensive when you add it all up.

Because of this expense, and because startups are looking to get the most bang for their buck, a lot of founders will initially go the route of finding co-founders for equity who can perform the duties that they themselves or the team is deficient in.

A good portion of tech startups are started by and built by programmers. Yet few tech startups are built by non-tech co-founders because it's so difficult to find a developer to work for equity if it's not "their baby."

They need to be heavily enticed and drawn into a startup to decide to work for equity on top of working their day job.

And tech startups need a devoted developer or two to keep up a good developmental pace.

But startups can't be built by technical development alone.

As you may already know, many programmers are introverted, even though it's been slowly becoming more mixed.

However, programmers as CEOs generally doesn't work out well because a CEO is the person in charge to run the company, be the public figure, be outspoken, pitch at meetings and meetups, etc.

Moreover, programmers usually don't have experience in business. And there are a ridiculous amount of business aspects to a startup.

Early on, it may be okay for a programmer to be taking the lead, as long as they follow startup best practices.

But without a very business-savvy co-founder to take on the role of a CEO to lead and guide the company, then it will be tough to gain any traction.

Technical developers have the bonus of being able to find marketing and business development talent easier than if it were vice-versa.

Moreover, even if a programmer/founder doesn't find someone else, it's much easier to learn about business and marketing than it is for a business developer to learn how to write code and become advanced in it nonetheless.

However, there's a problem that lies within a developer running a company. What happens if the founder/developer doesn't want to let go of his/her control of the startup and let someone else lead it?

The answer is that it doesn't work out so well and I'll tell you why through a story of mine.

I had a friend who is part of a team of three programmers building their own financial technology startup. I had repeatedly extended my hand to him if he needed help with the whole business-side of operations. One day my friend requested my help.

So I reviewed their startup and the software they made was impressive to me. Then I reviewed their operations, talked about my thoughts with them and about working with them.

None of them had any startup experience, though.

I knew that having three technical founders was an imbalance, but their software they made was pretty awesome and I thought it had potential so I thought I should give it a shot.

Soon after we came to an agreement and I started working with them for equity as their director of marketing and as their defacto startup advisor.

The founder of the startup had read a few of books on startups like Traction, Lean Startup, and Growth Hacker Marketing. And I've read them too.

But to be honest, these books are not enough for a programmer to learn about and understand the business-side of startups.

One of the other founders knew some stuff about sales funnels, which was good, but none of the three really had any business background or startup background to help them make the right decisions.

My goal was to become the fourth co-founder and lead their business and marketing decisions, but they resisted considerably.

Rather, they just took my strong advice "under advisement" and only implemented some of my suggestions.

They needed my help, but didn't want to take a lot of my advice because they were too caught up in their own heads with inferior business decision-making skills.

The first problem they had is that they had three developers as founders. This is a catastrophic imbalance of skills.

Until I came along, they had no business developers, no marketers, and nobody that knew anything worthwhile about startups to put and keep them on the right path.

The marketing books don't teach you about how to make your business sustainable. And a large problem they had and still have is that they ignored sustainability, despite my advice, and launched way too slow.

They couldn't wrap their heads around a pricing model that placed adequate value to their product (it was priced too low) and thus made the startup financially unsustainable.

They delayed their launch by 11 months because they wanted to implement certain software restrictions in their freemium model…for an absurd pricing model with a measly $3 a month or $30 a year.

It caused me an incredible amount of stress to watch a team of developers keep making incredibly bad business decisions.

I told them that I will leave if I don't get partnership and if they don't implement a simple monthly, 3-month, 6-month, and yearly pricing tier to launch within a week, and if they don't implement much higher pricing that reflected the real value of the product.

Can you imagine all of them relinquishing specific decision-making control to someone else after they've been the ones making the decisions for a few years already while building it?

I imagined it, but it seems I imagined wrong.

They dug themselves into a hole with this skill imbalance because it's not like any of them would leave and give up their equity.

No one could get bought out because they perceived their SaaS could be worth between $100 million and $500 million within a few years (maybe if they did everything right and had some luck on their side).

It's not worth more than $20,000 right now.

Moreover, they all put a lot of work into it and are emotionally invested.

They didn't want to lose any more of their equity and decision-making control.

Ultimately, they were too stubborn, egotistical to relinquish their ideas and couldn't make the startup sustainable for the team and for making profit. And it's for these reasons that I left the startup.

Do not fall into a trap like this. Ever.

Never have more than two technical founders. It causes a skill imbalance, a decision-making imbalance, and an equity imbalance.

Ideally, your team of co-founders including yourself should be between two to three people including one technical co-founder, unless you aren't a tech startup and you don't need a technical co-founder. The absolute max should be four people of different disciplines, however, some overlap is okay.

Make sure that the experts in their respective roles get the final say when it comes to what's best for their area of expertise, but always listen and be receptive to each other's ideas and be respectful of their input.

Ensure that if you're joining a team and there are specifics which need to be done and are within your scope of practice, that you insist they are done before you join that team and start working.

It may take a little bit of time explaining why. If they agree after the initial explanation, then great. If they don't then you should move on and look elsewhere, because they will not be the right team for you.

Root Cause 11: Not the Right Skills

Sometimes a team doesn't have the skills needed to actualize the vision of the startup or the duties within their role. It could be the any one or more of the teammates.

It's frustrating for everyone when things don't get done or don't get done right. And, not being able to accomplish what needs to be done is one of the reasons why startups fail.

There are a number of ways to prevent this and/or patch up the skill gaps which are listed and discussed below.

If you have skill gaps in your startup, then you can do the following:

1) You outsource by hiring a contractor to fill your skill gap(s). This is a list of 11 places to find your next freelancer.
    a. UpWork is one of the best places to find contractors for cheap prices.
    b. Fiverr is also an awesome place to find help on a low budget.

c. Crew.co is a site to hire top-notch creative freelancers.
d. Scripted is where you can find writers for content marketing.
e. 99 Designs is the destination for talented freelance designers.
f. People Per Hour is a great website with a smooth interface devoted to help you find a freelancer for almost anything you will need in your startup. You can post jobs or freelance yourself.
g. Writer Access allows you to hire professional writers to create articles, blog posts, white papers, books, or anything else writing-oriented.
h. Guru is a marketplace to find and hire talented freelancers for almost any task and have a significant base of 1.5 million members.
i. Topcoder is a place for you to crowdsource your programming projects to only the best developers for things like design and rapid prototyping, application development, algorithms, and analytics.
j. Gun.io is another place for hiring quality freelance software developers with over 25,000 professionals ready to work for you.
k. Gigster is a smart software development service, combining top developers and designers with artificial intelligence.

2) Bring on a co-founder that has the skills (and personality) needed to fill the void. Having competent co-founders is so important because you and they are the core of your entire business.

You are the people that will enact the crucial elements of your business. And you are the people that will navigate through your startup's journey to success. You don't want one bad co-founder to spoil your startup!

Where can you find co-founders?

1. CoFoundersLab is a great place to find co-founders or new hires.
2. Angel.co is a very good spot to find co-founders and hire additional teammates.
3. Using LinkedIn is a valuable asset for finding a co-founder.
4. You can also join meetup groups that are startup-oriented/themed and do networking at events to find your next co-founder.
5. Or, you can even find individuals on specific Facebook groups that will have the types of people you're looking for. It can't hurt to post that you're looking for co-founders and describe what you're looking for. Don't forget to ask for referrals from people!

Now, it's been suggested that the best people to hire should be extremely passionate about your startup.

And, I agree with that suggestion because you need people that will "burn the midnight oil" and make personal sacrifices for the good of the startup, especially when a deadline is nearing.

Depending on what problem your startup solves, you want someone that wants to truly make a positive difference within the market.

The reason I'm telling you about this personality trait is because this passion should come before the skills.

New skills can be learned, but passion cannot be manufactured.

If you find someone with the skills but they aren't excited to work on your startup every day, then why bother teaming up with them?

Obviously you want someone who has a majority of the skills needed to perform their role, but not every person will fit into your square box of what you want them to do versus what they are already capable of.

However, each person brings a different set of skills and experiences with them.

Sometimes you will get lucky and find the exact match you're looking for.

Having worked as a tech recruiter, I've been able to successfully find exact matches, but you have to put in a significant amount of effort to find your match like I did.

However, I want to encourage you to not get discouraged and lose your motivation to find someone out there that is a great fit. If you find someone, don't rush into a partnership together.

Make sure you get copy of their resume, samples of their work, talk to references, and work together on a short trial basis to see how you mesh with each other in a work environment.

To ensure you are getting someone of quality, it's always good to have insurance. Not the typical type of insurance, though. The insurance I'm talking about is via an equity-based partnership agreement.

Within the agreement you should have a two-year vesting option that gives your new co-founder a percentage of 1/8th of their total equity over each quarter of the year for as long as they keep working with you.

Additionally, you should build in a "cliff." The cliff is the main insurance that enables you to essentially fire them if they don't meet the pre-defined expectations you both set forth.

The cliff should usually be between a 4 to 8 month period from the time they start working on the startup.

3) If you truly want to succeed with your business, then continuing education is one of the best things you can do for yourself and your business. I'm not talking about going back to school. That's too constraining.

Instead, I'm suggesting that you learn on your own. Every single startup founder needs to learn new skills on the job. Wearing many hats is part of the role of being a co-founder.

Even if you're an expert in something, you're not an expert in everything. No one is.

But learning is how we grow as people and constantly learning keeps us more grounded and less egotistical.

Moreover, if you gain skills that nobody in your startup has, then it reduces the skills gap that you and your teammates have, and that's really beneficial to your startup.

This pushes a lot of people out of their comfort zones.

However, that's a great thing to do because being in a startup will consistently push you and your team out of their comfort zones on a weekly basis.

The more practice you have overcoming your anxieties, the more confident you'll gain that you can overcome any obstacle.

Remember, you can learn new skills or really anything if you truly put your mind to it. Your determination will be the gauge of your success.

Moreover, if there are skills that you consistently learn or continue to develop, then doing so will yield huge dividends in your future.

How, you may wonder? Keep reading and maybe you'll see.

According to an article on Inc.com, some of the most successful business leaders in the world have practiced what's coined as "The 5-Hour Rule."

This rule is the practice of setting aside one hour each day or five hours a week to learn something new or improve on an area you're deficient in.

Elon Musk, Oprah Winfrey, Bill Gates, Warren Buffet, and Mark Zuckerberg all deliberately practice "The 5-Hour Rule."

What do they do? They read, mostly. And then they experiment with what they've learned.

Every single one of those people have a net worth of at least $3 billion. Elon Musk: $16.6 billion; Oprah Winfrey: $3 billion; Bill Gates: $88.8 billion; Warren Buffet: $76.2 billion; Mark Zuckerberg: $62.4 billion.

The best way to practice the 5-hour rule, in my opinion, is to concentrate on continuing to build a skill set you have.

This is even more poignant when you focus on a skill that will directly lead to the benefit of your startup, especially if it's a monetary or product development benefit.

According to that same article, they say "most professionals focus on productivity and efficiency, not on improvement. As a result, just five hours of deliberate learning a week can set you apart."

One of the only ways that you'll make this happen is by prioritizing it by scheduling out 1-hour blocks of time and treating them like you would a meeting.

This is because people find it difficult to take an hour out of their day to read and/or experiment based on what you read.

How do you find the time? Wake up an hour earlier! There is an opportunity cost for everything that's really worth-it in life.

If that cost means less TV or movies for you, but more success with your startup, then which would you take?

If you and your team want to prevent startup failure, and better yet, have a highly successful business, then practicing this rule will definitely help you towards those goals.

Moreover, the 5-hour rule is a necessary component to your startup's survival and success.

Root Cause 12: Disharmony in the Team

If your co-founders and teammates are not harmonious, then you're going to experience some major issues every step of the way.

Why might a team have disharmony?

1. Individuals weren't properly vetted before being hired
2. Skills were the only reason for hiring and personality didn't influence the decision
3. No clear expectations of each other
4. When founders don't agree on a course of action and there's no process for decision-making, especially with just two founders
5. Not on the same page
6. Don't know how to approach problems and bottle it up becoming passive-aggressive
7. Poor communication
8. One or more people aren't doing their work
9. No roadmap of where the startup is going
10. Inexperience in one or more areas causing frustration

How can disharmony affect your startup?

- Your decision-making processes can be halted by arguments of how to proceed on any given topic.
- Your startup's operations can slow down or stop all-together.
- Your customers may become unsatisfied as a result of your team's delinquency.
- Your ability to make money to pay yourselves and your employees can be impacted.
- You'll be unable to get any funding or future funding from investors because they'll probably see that your team is not getting along or they'll hear about it.

- Teammates will leave
- An attempted coup could happen

As you can see, these are some very real consequences.

While this sounds obvious, all of the teammates in your startup need to work together in harmony and get along with each other.

The most important teammates are your co-founders and choosing the right business partner is like getting married, so you need to take the process of finding a great fit seriously.

You're putting your livelihood and life on the line for your startup.

You and your co-founders should be prepared to spend 10 years on your startup and be happy about it.

Do what you love and if you don't love it and don't have passion for it, then don't do it.

Your team needs to be like a well-oiled engine and it needs to run as smoothly as possible.

To make sure you are united as a team, there are preventative measures to take when looking for the right co-founders so you don't end up in turmoil with co-founders.

And remember, they're putting their trust and faith into you as you are into them.

They're taking a risk by joining you, too. Don't let them down and lead by example.

Most of the preventative measures are:

- Finding out whether or not you can get along as friends before partnering up. Grab a beer or some coffee together. You don't have to become best friends, but it's imperative that you get along and think on a similar wavelength. However, your main goals are towards your startup first and foremost.
- Learn about how they deal with problems in life.
- Learn about each other's motivations in life.
- Learn about each other's relationship statuses and familial life.
- Learning about their fiscal stability before partnering up.
- Learn about how each other work. What systems and routines are in place that help you get your work done?
- Set clear expectations for each other in your respective roles. This includes the original founder.
- Set up clear processes for problem resolution.
- As mentioned in a previous section, get a resume, ask for references and call them, and get samples of their work.

They want to team up with excellent founders just as much as you want stellar co-founders.

So make sure you're prepared to answer questions of theirs, be prepared to pitch to them, be ready to tell a well-practiced story about yourself and how your startup came to be, and be as transparent as possible.

Your preparedness will make their decision-making process easier for them, especially if they're more accomplished professionally and educationally than you.

When you and your co-founders are on the same page in terms of goals and expectations for your startup, then you'll get along much better than teams that are disorganized and don't live up to expectations.

Root Cause 13: Financial Instability

When a co-founder has to leave due to financial reasons, then it could lead to startup failure.

Why? Because if your co-founder leaves with their equity, then you're kind of screwed out of having full operational control to get a replacement and start fresh. Unless that co-founder gives up their equity, there's not much you can do.

You can relinquish more of your equity for another person, but your ability to raise money from venture capital investors will go down drastically because getting future rounds of funding past a seed round would be almost impossible because your equity pool is emptier than it should be.

It's important to bring on people who are fiscally secure so you don't have to deal with the drama.

However, if you are able to find co-founders who have day jobs and will work on your startup at night together, then you probably won't have to worry about your teammate's financial stability.

What happens if they don't have day jobs and you want to hire them?

You need to find out how long they can live without income and how long they can live on income stipends until you all can start to take on salaries.

Ask if they have debt and if so, then how much?

We all need money to live. If we don't have money, then financial problems can cause unhealthy amounts of stress.

I've been affected by this from two different people while building StartupDevKit and it wasted so much of my time. I vetted them for everything else except for finance and that was my biggest mistake.

I first should have qualified their ability to work with me based on their financial status. One person was being supported by his wife and then she and he had arguments about

Root Cause 14: Incompetence

You'll also see startups fail when some teammates are competent and some are not, which causes internal strife and dysfunction.

For instance, there are two founders. One does lots of work while the other barely does any. The competent founder would not be happy about this.

That happened to me in a previous startup and it created a lot of resentment when my partner kept doing less and less work and I was pulling all of the weight.

As his work with me diminished, he secretly starting to work on another startup of his without telling me.

Then, he charged up our company credit card for unrelated personal garbage, an account which I was the guarantor of (I was responsible for the bill), and he withdrew and stole all of the money that I put into the startup's bank account from my personal savings and he put me into debt.

To prevent something like that happening to you, there are a few things you can do.

- When you draw up a contract, stipulate that nobody is allowed to work on another startup without the unanimous consent of the co-founders. Violation or breach can lead to a loss of equity that's re-distributed to the remaining co-founders.
- If you have and control the money, then you should be only one controlling it. If a purchase is made, then it needs to go through you. It also allows the money to be more easily tracked in your spreadsheets. This sort of cautious paranoia is warranted, don't you think?
- To prevent founders from slacking off and not performing their duties, create a slack-off and incompetence clause in the contract which will re-allocate equity from the incompetent co-founder to the remaining co-founder(s).

  There could be limits to this when there's a need for an emergency leave of absence, illness, or planned and approved leave for a vacation. This can be based on a weekly reporting system.

Here's another example of incompetence: There are two competent founders and one incompetent founder.

The incompetent founder is doing work towards building the startup, but is not doing the work correctly, makes lots of errors, and so on.

This could be just as damaging as an incompetent founder that doesn’t do much or any work towards the startup.

How does one avoid getting into these situations?

When starting a startup, all parties need to find out about each other’s work ethic through honest discussion.

If everyone meets each other’s expectations of hopefully a solid work ethic, then you screen each other for their skills. Find out what skills everyone has and write them down under each person.

Then, find out what needs to be done to build or further your startup.

Once you have that information, you can work out with each other how to maximize each other’s potential and split up duties for each person.

Additionally, you should then draw up a contract for each person which states what the expectations are of each individual with clauses for expulsion and exceptions if the person doesn’t fulfill their duties for the job.

So to sum up this root cause, everyone needs a strong work ethic and the skills necessary to perform the job and prevent incompetence. Plain and simple.

Root Cause 15: Disharmony Between Co-Founders and Investors

It's not good if your investors and co-founders don't have a harmonious relationship and it can be detrimental to your startup and getting any future rounds of funding.

Investors aren't just people that give you money. They are people that want to help make you a success and want to use their resources and connections to help in that effort.

A super majority of investors, both venture capitalists and angels alike, invest in teams just as much as they do an idea or startup. The team leading a startup needs to have the personalities, experience, and skills to be successful in their industry.

If an individual seems hard to work with, then you maybe you shouldn't be working with them. On the other hand, if you are hard to work with, then other people won't want to work with you, either.

However, your best bet for overcoming any issue with another person is through honest and respectful conversation and dialogue with that person.

Try talking to them to clear up any misunderstandings or preconceptions.

I've heard investors tell me that they've become defacto psychologists to startups which they've funded because startups are so challenging mentally, physically, and professionally.

It's good for a founder to be able to confide in an investor like that. How else can an investor help them if they don't know what problems the startup is facing? A lot of investors were previously startup founders, themselves.

Don't alienate your investor and definitely don't lie to your investor.

They took a risk investing in you (all startups are high-risk), and they want you and their investment to succeed.

Chapter Four: Getting Outcompeted (19%)

Root Cause 16: Unaware of the Market

Countless startups fail because they don't know their market before they get in it, and then they get outcompeted.

How can you differentiate your startup from the competition if you don't know what your target user's buying options are? A competitive analysis is crucial to your survival.

This unawareness is due to hubris in founders. Egotism is not a valuable trait for startup founders. Even if you're an expert in your target market, you still need to have a competitive analysis.

In order for you to know who your competition is and for you to be able to keep track of what your competition is doing, then you need to be aware of the market and who's in it.

A startup has more limited resources.

It's incredibly easy to get outcompeted by companies that have been around much longer than you because they have the resources to do so.

But, if you at least know who is in the market while you're working on validating your idea, then you'll be more equipped to make an informed decision of whether or not the competition is already too fierce for you to start your startup and become a player within the market.

Root Cause 17: Not Keeping Track of Competition

Even after you've identified your competition and created a competitive analysis, if you don't keep track of your competitors, then you're leaving yourself vulnerable to getting outcompeted.

Keep an eye on them, their promotions, and follow your competitors with a dummy email address. Copy their promotions and save them.

However, don't go nuts on tracking every single thing that your competitors do.

Instead, make sure you pay more attention to how you can make your existing customers and leads as satisfied as possible with your product or service.

If you retain happy customers and keep them happy, then growth will occur for you, and you will have a market share.

At that point, you will not have to focus as much about being outcompeted.

Root Cause 18: Can't Differentiate from Competition

Part of becoming a successful startup is offering something new which fills a gap in the market and solves a need or multiple needs of a community.

If you aren't solving a problem because another company already has, then what makes your startup idea or startup different?

Your value proposition and unique selling proposition are both supposed to identify and answer that question.

When your product/service can't differentiate enough from established competition, then it's likely that you're going to get outcompeted, but it's not guaranteed.

Let's say that you've already been in operation and you just realize that you have competition that's outcompeting you.

What you should do at that point is pivot your strategy to show how you're better in your own way.

Can You…

- Undercut the competition's price?
- Provide faster service?
- Give more for less?
- Provide a much better user experience?
- Create a higher quality product or service?

- Find and address a specific problem that your competition is not already addressing so you can differentiate your product or service?
- Utilize a marketing channel that they are not utilizing to help gain more market share?
- Provide amazing customer service and superior customer satisfaction?
- Use industry data and trends to project the future needs of your target customers and fulfill those needs?

If you can't do any of the above, then I'm sorry to tell you that you're probably out of luck.

You see, there's a difference between getting outcompeted because you can't differentiate your product or service and between having a bad idea.

A bad idea doesn't solve any problems and just won't work in the market.

However, if there's already a business out there that's providing a service or product to fill a need and they're succeeding, then there's at least proof that their concept is desired by the market and the concept works.

Moreover, we've all seen multiples of products done generically.

They usually differentiate themselves by price having a cheaper price. Sometimes that comes in the form of cheaper quality, too.

While I wouldn't generally recommend that, sometimes it can be a good option.

Let's look at a real-life example and experience of mine in how it was a good option to create a product line that rivals a big name.

Beats audio has become a giant in the headphone industry. An incredible amount of people have purchased them and they are popular as promoted by Dr. Dre. However, they're quite expensive.

I wanted a pair of quality Bluetooth over-the-ear headphones. Beats' model that supports Bluetooth is $379.95 and I was not going to pay such an exorbitant price.

So I went on the hunt for a good alternative and found Bluedio after some research. I saw that they are reputable and Bluedio was able to create high-quality headphones and significantly undercut Beats' prices at the same time.

I found a comparable model for $60. So to me, purchasing a pair of great headphones for $60 that gave me even more features, instead of a pair that was over six times the cost, was a no-brainer. And, I'm very happy with them.

That's a prime example of a startup that came up and differentiated themselves in a market where a company already had huge name recognition and market share.

And, instead of getting outcompeted, they got more business, expanded their market share, and kept expanding their product line and improving their products year after year.

Root Cause 19: Market Too Crowded With Competition

It's easy for a startup to get outcompeted when a target market is too crowded with competitors.

How many competitors is too many?

There is no number that can be determined which works for all businesses because it depends on a variety of factors in each situation.

However, you will definitely want to know who is in the market, what their market share is, and then you can find out if there's room for you.

How do you find out whether the market is too crowded with competitors?

In order for you to even have an educated opinion on whether or not there's a crowded market, you need to do a competitive analysis and do market research.

Every startup should be doing this.

If you don't, then you're at a much higher risk of startup failure because then you don't know who your competition is, what their product offerings are, how much they're selling it for, what channels they're marketing in, how large their companies are, etc.

Once again, when you start a startup, it should be for the purpose of creating value for your target market by helping to solve a problem of theirs or creating a need for your product or service with an amazingly innovating product that everybody "has to have."

So when you are trying to figure out if your startup idea is worth pursuing, then you should perform a competitive analysis of the industry and your competitors.

That analysis allows you to find out all of the above stated topics and helps you to make a decision on whether or not you move forward with building your startup idea or not.

You don’t want to start a business in a market that’s saturated with so many of the same businesses that are already performing at a level where they can easily outcompete you.

Instead, you want to have a unique angle with product-market fit.

If you don’t, then when you launch, you’ll be like a small fish swimming in shark territory.

And the sharks won’t invest in your company, either. They’ll eat you alive.

Root Cause 20: Getting Completely Outcompeted

Getting outcompeted is a large reason why startups fail, and if you seriously can't make it after trying everything, then it's better for you to close up shop or try to get bought out by one of your competitors.

However, there may be another way to save your startup if this is the case.

If your startup is already operating but your competition is squashing you, then what you might need is better quality and more expansive marketing.

If that was happening to me, I’d do everything in my power to growth hack my business and find a unique angle of your business that your target customers would find value in.

I would be as creative as possible to increase my conversion rates. I'd also study my competition assiduously and look for any gaps in their services or products that can be exploited for that unique angle.

Everyone always asks, why is your startup different than everyone else out there?

In the end, it comes down to positioning your product or service in the best light, marketing, sales, and value creation for your target customers.

What can you try as a last ditch effort to save your startup from dying and failing?

Make money. But to do that, you have to…

- Follow best practices for everything you put your mind to
- Show the benefits that your target users will get from your product or service rather than the features and change how you word your ads to show that
- Create paid marketing campaigns
- Do lots of social media marketing if you can find your target customers through there
- Email your list more with more promotions and explanation as to how your product or service is going to help them.
- Sales outreach to target customers via email, LinkedIn, and phone

Chapter Five: Pricing / Cost Issues (18%)

Root Cause 21: Product or Service Too Expensive to Make

If your product is too expensive to make and/or produce and your margins are too slim after attaining product development costs, then it's quite possible that your startup could fail before it has a chance to get off the ground.

Your product/service is your main revenue stream and needs to be cost-effective to make and run.

A net profit of 40% or more is where you want to be.

Any less than that and you're giving yourself too little room for expansion.

However, you can bootstrap your startup if you're a developer, and get no profit for some time and probably eat a lot of costs.

But you have to be prepared for that opportunity cost and be prepared to struggle for a while until you get off the ground and can make a good profit.

If you aren't a developer, then you need to get quotes from development agencies, freelance developers, 3D printing shops, and/or factories so you know how much everything will be.

Then you've got to work on your business model again to see if you can make a good net profit after figuring out your costs.

However, there are occasions when you can get pre-seed-stage funding from venture capital and angel investors.

This funding would, in large part, be used for product development.

You'll be rigorously questioned from investors, though, and you have to show that your idea is something that people want.

So getting funding for your idea will be very difficult. Be prepared for that.

In order for you to demonstrate your target market's desire to those investors so you can get that money for product development, you have to get a form of traction.

You can do this by creating marketing campaigns around your idea with a coming soon landing page and with a waitlist email signup.

If hundreds or thousands of people sign up for it in a month or two, then you might have a really great idea.

Moreover, there aren't many investors that are into pre-seed investing because it's so high-risk in nature.

So also be prepared to make your product or service without the funding of investors, or drop your startup idea if no investors will invest in your idea to get it developed.

In order for venture capitalists to invest in your startup, they are going to want to see your startup reaching a $300 million dollar valuation or higher.

If your startup doesn't have that kind of future ahead of itself, but it might reach $25 million or $50 million dollars, even, then you still could have a great idea. Just not what a VC is looking for, that's all.

Another way to help with initial production costs is to crowdfund your idea for the money.

This can help to give you the boost turn your startup idea into something real and ready for market consumption.

I'm going to share another story with you from personal experience about digital products that were too expensive to make.

Then, I'll share more info about physical and digital product development and their costs.

Many years ago, I had two great startup ideas, each in different time periods. One of them was a pure SaaS web application and the other was a specialized dating website for an extremely large niche.

I got quotes for the costs two of my ideas and they were both upwards of $30,000 USD and there was no way that I could get it done by development agencies.

I tried finding developers to become co-founders to no avail, and was unable to find anyone suitable and willing to get on board.

It’s not easy for any non-technical founder to find a developer to get on board for just equity. Most require equity + compensation.

So I tried going the investor route. I had trouble finding investors to invest before I knew how to leverage the internet as an idea validation tool.

Their chief argument was that I needed traction, so meetings requests were declined. It was too high-risk for them.

I thought traction was only attainable through a product that’s built and with users signed up to show its validity.

Little did I know that it might have been possible to display traction through waiting list email signups for my two different services (these were in different time-periods).

And while there were less pre-seed investors back then, I might have been able to give myself a better chance at getting my product built by getting and using investment.

At one point I decided to learn web development so that maybe I could do it on my own, but four months into my journey after gaining a better technical understanding of what I needed, I realized that I was in way over my head and should stop.

The technical skills I needed were not easily learnable and required experience.

Don’t do what I did because you will probably have the same type of experience and by the time you get the requisite experience, your startup idea may have already come to fruition by another startup.

But hey, I learned HTML5, CSS3, a little JavaScript, and a little PHP in the process. And, I learned from those experiences.

To conclude my story – getting expensive products built is really hard if you can't develop them on your own. But there are other ways to develop them at a lesser cost. Continue reading to see how.

Developing Digital Products

If you have a digital startup idea and you're not a programmer, then the cheaper way to get it developed is for you to get someone to build a minimum viable product (MVP) as a barebones version of your idea.

This MVP needs to address the need or problem of your target customers that you're trying to fulfil or resolve, respectively.

In addition, your MVP would represent and fulfil the most important aspects of your vision of your startup idea.

If you first use a landing page like previously described and see validation from your target customers, and you talk to your target customers about your product vision and they like it, then you can have peace of mind that developing an MVP as a next step is a good idea.

The cost of having an MVP built versus a full version of your digital product is of significant difference.

Full versions of digital products can range from approximately $20,000 USD to $50,000, depending on its complexity.

Sometimes more and sometimes less. MVP's can range from $1,500 to $5,000. The latter cost is much easier to digest than the former, don't you think?

Moreover, if you can fulfill your startup idea this way, then you're much more likely to be able to obtain seed-funding or get enough money (if you're charging with your MVP) to get a full-version built by paying developers or getting them to come on board for equity + compensation.

You can find an in-depth post about building MVPs by visiting StartupDevKit and reading the article: How to Build a Minimum Viable Product.

For Physical Products

Sometimes prototypes can be incredibly expensive to make, but sometimes they are cost effective. The prototype is your first concern.

Then the cost of producing it, packaging it, and shipping them on a small scale is your second concern, and then producing, packaging, and shipping them on a large-scale is your next concern.

To address prototyping, there are 3D printing shops in just about every major city.

Just type in "3D printing shop your location" into your search engine and you'll usually find something if you're in a city or near a city.

To address production, there's now a cheaper way to create molds and produce products on a small scale.

One company that has cut costs considerably for people requiring physical products is Collider.

With their machines, people are able to create molds and parts for their products and manufacture them at a fraction of the time and cost, in-house nonetheless.

It can manufacture parts and items like 3D printers can, but also is able to makes them either plastic, rubber, or metal, depending on your needs.

When you produce products on a large-scale, it's almost always cheaper if you get physical products manufactured in China or a lower-cost country.

High quantities are needed to get it done there (5,000 to 10,000 minimum) and it's usually a 60 to 90 day turn-around including shipping time to get it back to the United States by boat unless it's in Mexico.

You'll have to figure out how you're going to package your item and what the costs involved in packaging are. It's going to be part of the cost and price structure of your product, so make sure you do it.

There are many different options on how to package your product, as well, but don't feel overwhelmed. You will figure it out.

The best course of action is to simply type "product packaging" in your search engine and research. There are a lot of good resources I've seen listed on the first page of Google.

To address shipping in greater detail, you should always figure out what your shipping costs will be per box and per carton.

It's an important part of the pricing formula for physical product distribution.

I know it's another thing to do, but it's necessary for you to do within your idea validation process.

Shipping time is usually reduced when produced in Mexico and delivered to the United States.

The same goes for countries across Europe since they are so close to each other.

If you need your stock quicker, then you can choose to get it shipped via air freight, but the costs are often three times more expensive than by boat, and the heavier and larger your products, the more it will cost to ship via plane (air freight).

It's important to get quotes on large-scale costs too so you can be informed enough to make a smart decision on whether or not your product is going to be too expensive to produce, ship, and sell to your target customers.

Without knowing this information, you're going to be navigating blindly when trying to figure out if your product is cost-effective or not.

In conclusion, we've now gone through all of the major cost factors for product development.

If investors would want to know what your costs are, then you should want to know what your costs are. So do your best to cover your costs in detail.

Root Cause 22: Overhead Is Too High

Some startups can fail when overhead costs are too expensive to maintain. If you spend more than you make, then you're definitely in need of a tune-up with your processes, necessary staff, salaries, and service costs.

Why Can Your Overhead Costs Be Too High?

- Your product may be too expensive to produce, package, and/or ship. See if there is a way of making it at a lesser cost and/or lighter to reduce shipping costs. (This was covered in the last section)
- Agencies charge too much
- Office space and warehousing could be too expensive
- Too many people on payroll
- Too many subscription services

Agency Costs

There are tens of thousands of agencies in the United States and worldwide. Perhaps there are hundreds of thousands or millions, but there's no data to show how many.

The three main types of agencies that startups use are marketing, public relations, and technical development. There are plenty of good ones and plenty of bad ones.

The bad agencies will charge an excessive amount of money of many thousands a month.

These high costs can cripple your startup **<u>if</u> they're not giving you a good return on investment (ROI) of at least two dollars for every dollar you put in**.

However, you can't quantify a ROI for development costs. You can only compare versus other quotes from other agencies.

A lot of first time founders don't know what they should be getting out of an agency and so without any reference point, it's easy to let expectations fall by the waist-side.

Some agency salespeople will prey on you unfairly if you give off an impression of desperation or ignorance about what you need done. I've seen snake-oil salesmen that promise the world and then the agency doesn't deliver. Don't get taken by a shark!

How Do You Avoid Being Taken Advantage of by Agencies?

1. It's important to do your research first and be informed about what you need done and how much it will cost.

2. Contact multiple agencies to get the best combination of price and service.

3. Before signing up with agencies, do your diligence to see who used them in the past and in what capacity.

4. Get everything in writing and don't pay everything up front. Make sure you get non-disclosure agreements from development agencies when getting quotes to protect your intellectual property.

5. Don't get a locked-in contract, because if they suck, then you don't want to shell out money for an agency that isn't doing their job well.

6. Poorly performing agencies with locked-in contracts can definitely contribute to overhead being too high. Start off on a month-to-month contract instead. Paying monthly is usually the best way to start out.

7. A good ROI for marketing and PR is at least 2x to 3x what you spend. Marketing is the easiest to quantify your ROI.

   In order for you to know what your ROI is, make sure everything is tracked via analytics, including specific campaigns, and that you get weekly and monthly reports from the agency.

   That traffic should lead to an increase in sales and you will see the efficacy of their marketing. If a marketing agency doesn't do reporting and analysis, then don't use them.

8. Public relations is somewhat easy to quantify too because you can see a PR firm's efficacy by seeing how many different publications you're featured in.

   You should also see spikes in traffic from the time the article came out as well as where the traffic is coming from, which is usually from the article that features you.

That traffic should lead to an increase in sales and you will see the efficacy of the articles themselves.

9. Ensure that the development agency is on-time with your project deliverables for each phase in the web and software development lifecycle.

   And, ensure they can demonstrate the functionality of those deliverables.

Office Space Too Expensive

As described in chapter two when describing how the burn rate could be too fast, I spoke in detail about office space and co-working facilities.

However, I'll talk about those and even cheaper alternatives to renting office space.

To reiterate from chapter two – startups have limited budgets and therefore should not rent their own offices unless it's absolutely necessary.

Not only is the rent a cost factor when having your own office, but so is electricity, heating, air conditioning, water, internet, phone lines, computers, and the cost of furniture and any kitchen appliances.

Now that you see all of the costs involved, you may be thinking that you still need a mailing address and wonder where you can get one that's not your home.

Well, you're in luck, because you don't have to have a physical office to have a mailing address.

You can rent a P.O (Post Office) Box or pay for a mail service from a co-working space to act as a mailing address.

Most co-working facilities have this option.

Since office space is so expensive, better-priced co-working facilities have become the future of small business and startup real-estate.

You can have a shared desk (you float anywhere) or have a dedicated desk.

You can even have your own small private office within the co-working facility. And another great benefit of co-working facilities are that you have a great opportunity to network with like-minded entrepreneurs.

The cheapest and most cost-effective alternatives are to buy some coffee and work at Starbucks or Dunkin' Donuts for a few dollars a day when you're just starting up.

Or, you can work from home and limit your external distractions and make your own coffee for even cheaper!

Some people need to get out of the house or their apartment whereas some people can be just happy working from home.

A lot of businesses work remotely these days and advancements in video technology, other communications software, and productivity software have made it even easier to do so.

However, **if you have physical products**, then you need to warehouse them. But, you still don't necessarily need to have your own office space and warehouse. You have two options for warehousing.

You can have your own in-house warehouse to store your products and ship from or you can use a remote warehouse.

Both have pros and cons to them, but with remote warehousing, there are options to pay only for the space you actually use.

If you have your own warehouse, then you have to pay for the entire facility.

Search for "remote warehousing" on your search engine and you'll see a handful of different options and companies you can work with that support this type of business model.

Some of them will even ship your products to your customers. It's worth researching and looking into.

Too Many People on Payroll

First of all, you need to make sure that you don't have too many people on your payroll. Only pay for what you need.

And, consultants are the cheapest forms of paid and experienced labor.

Startups are supposed to be small organizations of between one to five people until you experience enough monetary profit where you can start hiring more full-time consultants or permanent workers.

If you hire too many people too fast after you start making some money and turn a profit, then it's very easy for your overhead expenses to get too large.

The best way to avoid having too many people on your payroll is to maximize each of your employee's activities so they can create the most benefit for your startup.

Only hire one or two folks at a time until you start to sustainably make enough to drive expansion in your marketing and then expand your staff with a one or two more people after you make enough to hire the next one or two people, and so forth.

Another way to help yourself avoid payroll getting too high is by hiring commission-only salespeople on a contract-basis.

If you provide bonus incentives, then it will help you retain them. They pay for themselves and you don't have to worry about paying benefits or increased taxes.

Too Many Subscription Services

Have you ever heard the saying that "everything adds up?"

Well, having too many subscription services adds up and can become a hefty chunk of your expenses.

It's not a reason for startup failure, but it's a contributive factor along with some of the other previously mentioned reasons. Money management and fiscal conservatism is important.

How do you prevent this from happening to you?

It's simple.

Review your monthly services and cut what you don't use. If you use everything, then see if there are other similarly equal, yet less expensive alternatives.

Root Cause 23: Product Is Priced Too High

Startups can fail when their pricing model is too high. Yes, there's a customer for everything out there in the world, but some things are just too expensive.

Sometimes a product or service is priced too high out of greed and arrogance, and sometimes out of necessity due to product and/or overhead costs.

You should know your target customer and the high range of what they're willing to spend based on your competition's pricing.

Your pricing model is part of your business model. To validate your startup idea, you need to have a functioning pricing model that factors in a range from the lowest you can sell it to the most expensive you think you can sell it.

And, so it's important to be aware of what your competitors are charging normally and if they ever have sales.

It's good to keep a spreadsheet of this information and update it every month or so.

Make sure you have a business model that will work to provide you at least a 40% profit margin.

The lower the overhead and the lower the customer acquisition costs (CAC), the more profit you will be able to have.

Just be reasonable with your pricing and with your customers' purchasing power in mind.

You can always hold sales if your product is positioned as too expensive.

In addition, sometimes a high-priced product or service conveys that it's of premium-quality.

There's a saying: "you get what you pay for." Many people believe in this.

So, if your product is already being sold and it's sort of pricey, then you can ramp up demand by offering sales and implying scarcity based on a limited-time offer or limited number of items sold on sale.

If those options don't work, try lowering your pricing and see how that goes.

This is why I said you should include a range for how much you can sell your product or service for. Wiggle-room is good to have.

Root Cause 24: Product is Priced Too Low

Pricing that's too low can halt the startup in its tracks for multiple reasons.

I've seen startups make their pricing model too low and they became their own worst nightmare.

They make practically no money and undervalue their work at the same time.

Why put in the time and energy in making a product or service that won't sustain you enough for it to become your full-time job?

Do you want that to happen to you?

When you price your product too low, you do two things:

1) You undercut your credibility because you are showing you don't believe your product or service is worth paying real money for.

   When people sell their products or services for more money than less, they've actually seen their sales rates go up because the consumer psychologically thinks "wow this person must be that good because they're charging that much" or people will think "you pay for quality."

2) You don't generate enough revenue to make your business work and your business can easily die. Startups that do this won't have enough money to the bills, nevertheless to expand.

Becoming an overnight sensation doesn't happen much, so don't expect you'll get massive traffic for a cheap pricing plan to pay off.

Assuming your prices are too low and you're currently launched, you can raise prices without immediately affecting your existing customers.

So for either the lifetime of membership or until the end of the year, your existing customers get locked into their current rate and any new customers will get the increased price.

However, you don't want to raise your prices too often.

Make sure that when you do, you're doing it because you worked out the math and the new pricing meets "the magic number" to make your startup sustainable rather than hoping raising pricing in hopes that your startup doesn't implode.

If your product is indispensable, then you should not have to worry about making it really cheap and affordable.

Your product or service needs to have the right balance of pricing between affordability for your customers and profitability for your business.

Look at your competitive analysis and see where you can fall in line with your competition, your current pricing model, and determine how you'll be able to make your business model work with different pricing strategies.

Root Cause 25: Licensing Costs Too Expensive

There are times when certain types of startups need to pay for licensing.

When licensing costs are too expensive, then they can prohibit the startup from being able to grow.

You will require licensing if you are using:

- Products or services involving musical artists' names or music
- Movies' names and characters
- Television shows' names and characters
- Actor's names

- Sports teams' logos and names
- Any other brand used in conjunction with your product or service, especially one with a trademarked name.
- Any patented materials or technology that would be used in your product

Why can licensing be expensive?

Licensing can be expensive because you have to pay a portion of your revenue to the organization or person that owns the copyrights, patents, and trademarks.

If you need to use another brand's product, technology, intellectual property, or name in order to create or sell your item, then you have to make sure that you can acquire the license to produce and sell it.

You need them more than they need you.

To secure a license, you need to contact the company or person you wish to get the license from.

Then both parties need to agree on how much the licensor will get from each sale.

Because most companies and people like making extra money, they would probably agree to a license, but you can't assume it will happen.

The licensor may require a certain amount or percentage of money to be made off of each item sold.

Because of that, make sure there will be plenty of room for profit.

No profit, no growth.

But, if you can't get the license or can't agree to a deal, then you either have to figure out another way to make your startup happen without them or you have to abandon your idea.

This was only the first quarter of the book. Please reach out with any feedback to StartupSurvivalSecrets@StartupDevKit.com