

KEYNOTE

Top 10 reasons why startups fail



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Partner Cottonwood Technology Fund

Partner

Alain le Loux



Experience

- 25+ years' experience in Technology on board level positions and as CEO of startups
- Graduated in 1994 with a double degree at the technical University of Twente.
- Before Cottonwood successful angel investor (2010-2015)
- Expert in strategy, marketing, product launching, pricing and international business acceleration.
- One of the founders of the European Accelerator Program for the European Institute for Technology and Innovation.
- Coached more than 200 high-tech startups in Europe.
- Huge network and direct access to all relevant ecosystems in Europe (Paris, Berlin, London, Helsinki, Stockholm, Leuven, Munich, Eindhoven, Twente, etc.).
- Graduated in 2001 cum laude for an Executive MBA at Business School Netherlands.
- General Partner at Cottonwood Technology Fund (early stage VC investing in Europe and USA).



- High Tech Startup: Air Sterilization.
- 3 years R&D. Investment of € 6 million.
- My start: 1st of March 2008.
- Preparing for the London Stock Exchange.
- 26 May 2008: Press Release.
- Within 2 weeks: 250 interested customers – worldwide.
- Number of leads increased every day !
- How many orders after 1 year ?
 - ☐ 864
 - ☐ 512
 - ☐ 249
 - ☐ 97
 - ☐ 24
 - ☐ 3

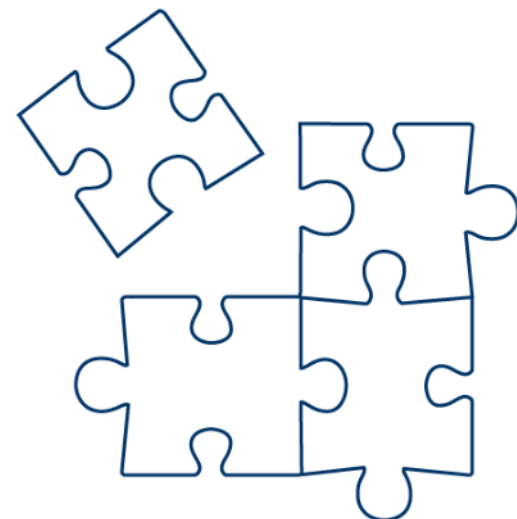
Top-20 reasons why startups fail

BASED ON ANALYSIS OF 101 STARTUP POSTMORTEMES Top 20 Reasons Startups Fail



TOP 20 REASONS STARTUPS FAIL #1: No market need

 CBINSIGHTS



1. Underestimate the time before the company is making profit

- The business case always fits
 - I don't see business plans which are lossmaking
- 99,999% of the startups underestimating the marketing & acquisition costs
 - What is the cost price of getting a customer ?
- First year already fast growing revenue !
 - Realistic: NO
 - Will take in 99% of the cases at least 3 year; before a company is making any profit

THINK
BIG
DREAM
BIG

2. Overestimate the market size

- 99,999% of the startups overestimate the market size
 - Business plans contains total market size of Billions
 - Also huge numbers for “Total Addressable Markets”
 - No idea how to access those markets
 - No idea how much a go-to-market strategy will cost
 - Never thought about competition
 - Never thought about substitutes
- Typical startup thinking:
 - “We made a new personal Heart Rate Monitor. We can make it for only 12 US Dollar and will sell it in the shops for 50 US Dollar. If we sell to 2% of the Chinese people we will be rich.”

3. Funding problems / cash flow problems

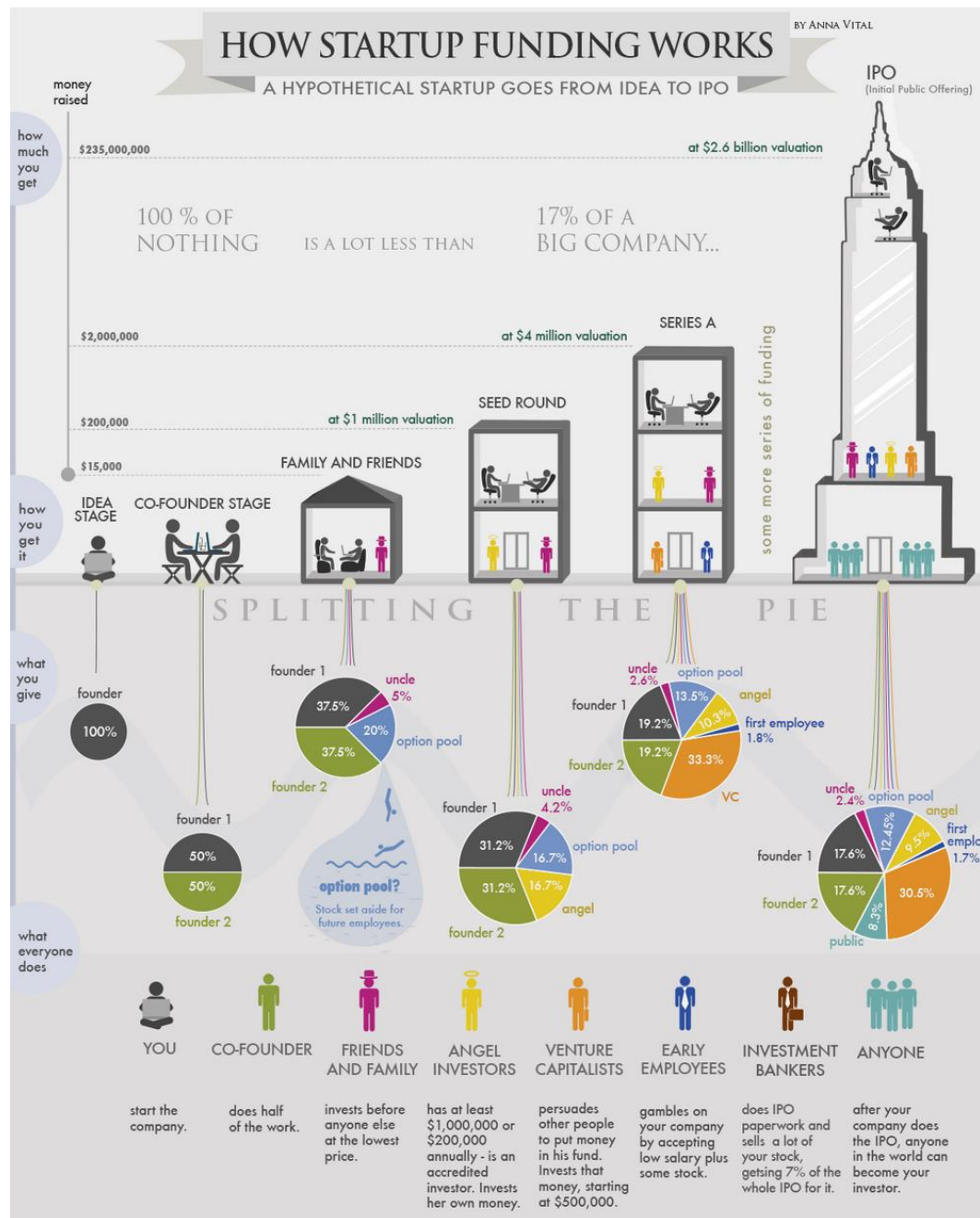
- Without (enough) money you cannot
 - startup your business
 - pay your employees
 - pay your personal expenses
- Without (enough) money no one in the world will know your product / service: you need (**a lot of**) money for marketing & sales !!
- Always my **first coaching question**: “how much money do you have (left) and what is your monthly burn rate?”
- BUT: Finding a VC will take time and a good preparation!



Get funding: prepare for the investors pitch

1. Problem: connect emotionally with your audience
2. Solution: resolve the pain – PRODUCT / SERVICE (DEMO)
3. Business/revenue model: how you make money ?
4. Proprietary technology: your unfair advantage
5. Competition: why you're better than competitors
6. Marketing plan: customer acquisition
7. Financials: quarterly revenues versus expenses
8. Your team
9. How much capital do you need and what will you do with it ?





Raising money

- Phase 1: own money & FFF
→ Friends, Family & Fools
- Phase 2 (still early seed)
 - informals / business angels
 - crowd funding
 - subsidies (governmental, EU, etc.)
 - early stage VC's (limited numbers)
- Phase 3: growth money
→ VC's



Homey, The Living Room — Talk to your home!

by Athom

Homey is speech-controlled home automation. Talk to your home to control everything: from lights to music, from climate to TV.

📍 Enschede, Netherlands

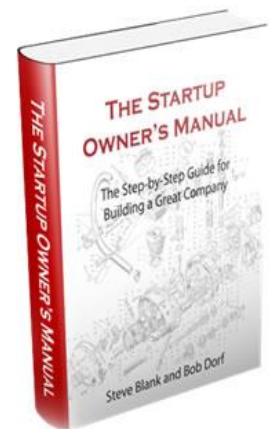
Successfully funded!

204% funded	€203,918 pledged	Funded Jun 27, 2014
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4. Problems with customer acquisition

“Everyone likes it, but no one buys it”

- The problem is that startups only ask to potential customers, do you like my product and do you want to have it ?
 - Sounds like “Do you like a Ferrari ?”
- With Business Model Testing (Osterwalder) you have to check:
 - Which problem are you solving ?
 - What is the value of that problem ?
 - What do they use now ?
 - Are they willing to change?
 - And how much are they willing to pay ?



“ there are no facts in the building... so get the hell out and talk to customers ”



Steve Blank
entrepreneur & author

Business calculations & realistic forecasts

EXAMPLE: SWIRLID

- The Swirlid is a convenient and beautifully designed opening device



Business calculations & realistic forecasts

EXAMPLE: SWIRLID

- The inventor / owner has invited his personal 1,600 LinkedIn relations to buy his device with a special discount: € 35 in stead of € 60 (it was still not available in the shop).
- How much people (personal relations) did order this device ?
- I was coaching this owner and he asked me this question.
 - I said 4.
 - He said “how did you know that ?”
 - actually it were only 3 ;-)
 - He said “I really thought that 800 people should buy it”
 - I said “By the way: I think those 3 bought it because you’re a nice guy”

Business calculations & realistic forecasts

EXAMPLE: SWIRLID

There is big difference and between the following:

1. I like the product.
2. Yes, I like it.
3. I would like to have it.
4. Yes, I would like to have it.
5. I think I will buy.
6. I will buy it.
7. I'm sure I will buy it.
 - But when: next week or in 5 years?
 - Why should people order it today ?
 - Why should people pay € 60 ? (it is really a big problem ?)
8. I want to have it this week. I will ask my husband to buy it.
9. I will step on my bike and will ride to the shop ? (even when it's raining ?)
10. Yes, I got it.

5. Pricing & revenue model

- Lots of startups spend a lot of time with internal discussions “What must be the price ??”

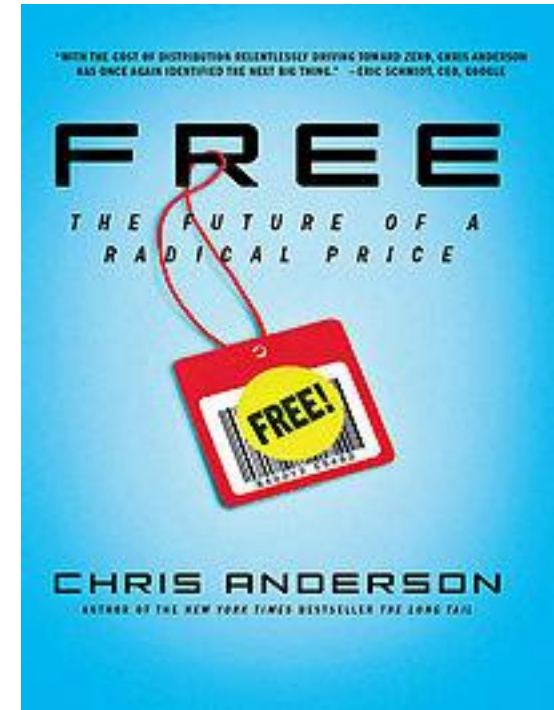
The answer is: **NO ONE KNOWS !!!!**

- Ask your customers !
- Do not mention prices on your website (only when you have online subscriptions; even that: you have to test it before going live)
- Use value based pricing models and not a cost price+ model.

Pricing: € 5.000 per year
Duration: 3 years#
customers: 3

Pricing: € 400 per month
Duration: 3 months for free,
monthly subscriptions and
direct accomplishment possible
customers: 50 customers
with only 1 successful mailing

How do they make money ?



FreeTheFutureOfARadicalPrice.pdf

Freemium models

6. Not the right team

Most occurring problems

- No winners in the team
- Lazy employees (focus on connecting hard-working people)
- Not enough experienced sales power in the team (you need proven sales people with market knowledge !!)
- The CEO has less execution power and cannot set priorities
- Not enough creativity in the team
- Technicians are good but not good enough
 - ➔ Spend time to find the best ones
- Employees are not involved enough (or have other activities as well)
- It is NOT a TEAM



7. Lack of focus / not the right market

Technicians like to improve and improve and improve and improve their solution

STOP IT !

- Ask your customers what kind of (basic) functionality they want to have and bring that to the market
- Afterwards you can offer new functionality and can make improvements

**First focus is: making money !
(or reach your next milestone)**

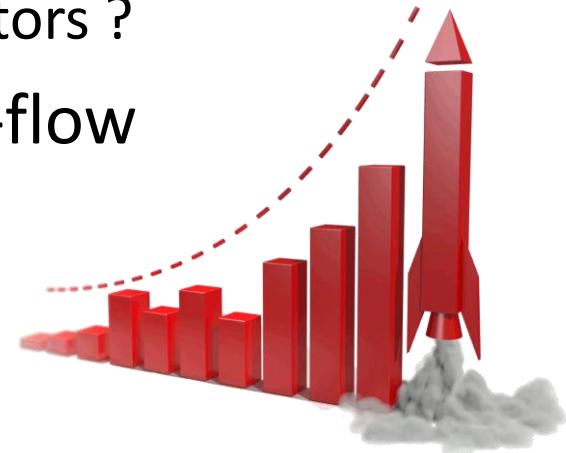


8. Product / service is not as good as expected



9. Problems with scaling up and growing

- Is your business model / service scalable ?
 - Is the technique ready for it ?
 - Can you easily scale up without organizational problems?
 - If not, it is always a challenge.
- How to sell in other countries ?
 - Do you know the costs of opening an office abroad?
 - Hire own people? Or connect distributors ?
- How do you manage your future cash-flow when the business grows ?



10. Internal troubles within the management team

- Fighting about shares
- Fighting about management fees
- Fighting about positions and roles
 - Including the titles on the business cards
- Fighting about the fact that not everyone is making the same hours per week
 - Some people start at 07.00 and others at 10.00
- And last but not least “Fighting about nothing”



Top-10 reasons why startups fail

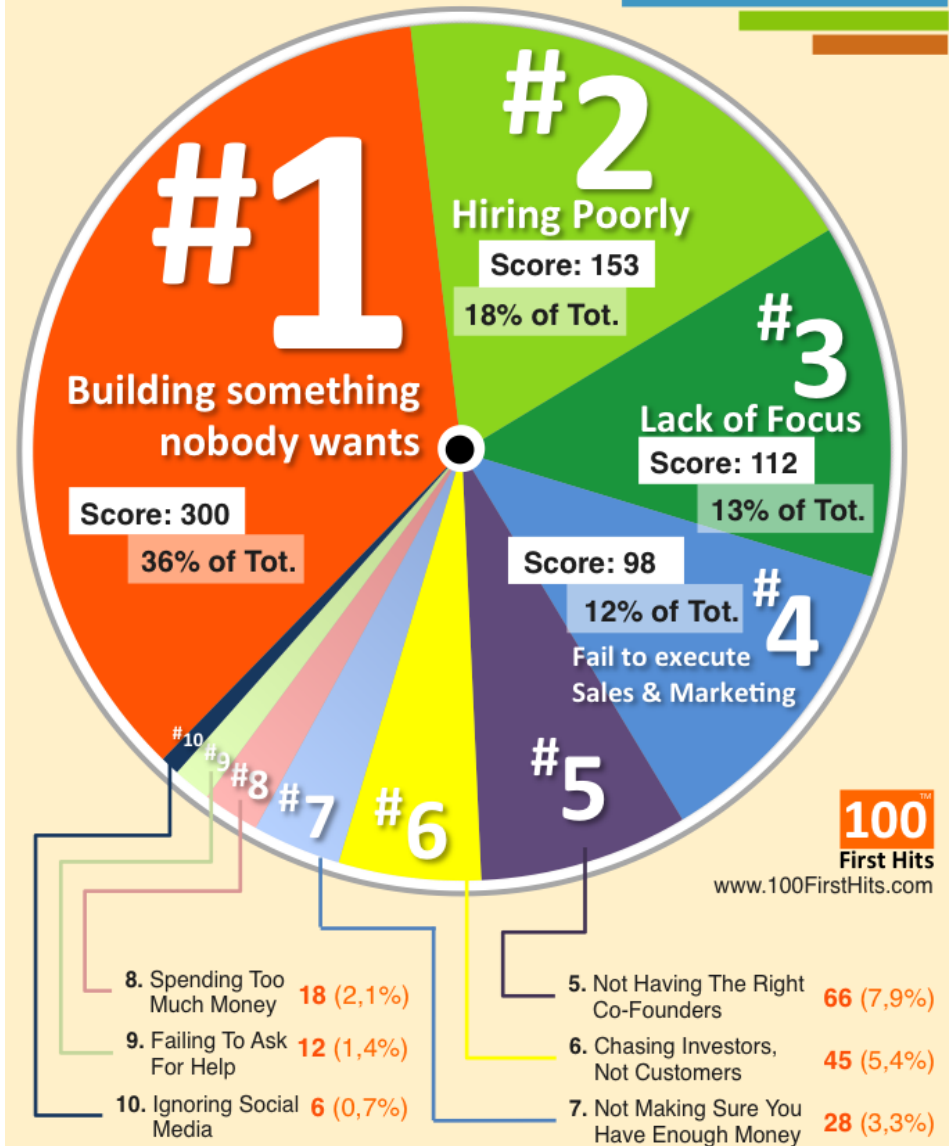
1. Underestimate the time before the company is making profit (underestimate the marketing & roll-out costs)
2. Overestimate the market-size
3. Funding problems and cash flow problems
4. Problems with customer acquisition (“everyone likes it, but no one buys it”)
5. Not the right pricing and/or revenue model
6. Not the right team
7. Lack of focus / not the right market
8. Product / service is not as good as expected
9. Problems with scaling up and growing
10. Internal troubles within the management team



Top-10 reasons why startups fail



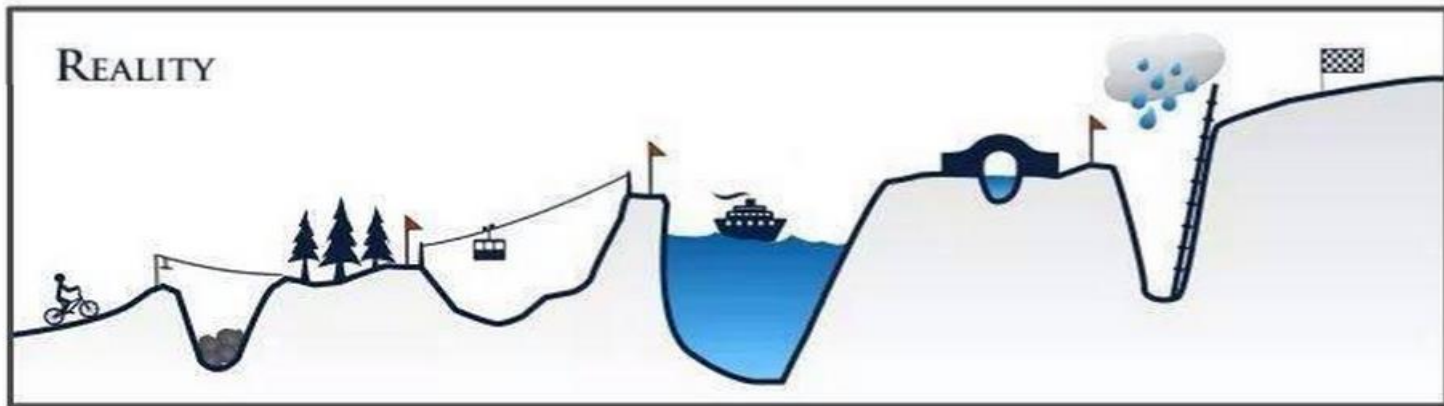
TOP 10 STARTUP MISTAKES



Startup Experience



Startup Experience



Recommendations

- 1. Have fun! When you don't have fun, stop immediately !!**
- 2. Talk with potential customers**
- 3. Focus on launching customers. The earlier you involve potential customers in the R&D process the better.**
- 4. Rule-of-thumb: spend 1 euro for marketing for every euro you spend in R&D / developing your products / services**
- 5. Try to find the right pricing model**
- 6. The lower the thresholds the easier to get new customers**
- 7. Test your business plan with Business Model Testing**
- 8. Senior commercial skills (industry expert) in the management team is necessary**
- 9. A formal launch with a press release can fasten-up the market entry**
- 10. Find an experienced start-up coach / mentor**

Thanks for your attention

Questions ?



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