

Startup Handbook

**What mistakes should
you avoid when building
profitable startup?**

Who wouldn't want to start a company that would change people's lives forever, like Google did? After all, all it takes is a revolutionary idea and enthusiasm. **Right?**

It turns out that the business world is less friendly and welcoming to innovators than you might think. Examples from thousands of startups show that it's extremely difficult to create a business that can rival the most popular search engine, and most entrepreneurs aren't exactly swimming in cash.

In 2019, over 800,000 new businesses were founded in the United States alone¹. Unfortunately, most of them did not survive the market impact. Only 1 in 12 startups succeed². Statistically 2 out of 10 new companies don't make it through their first year³.

¹ Number of business establishments less than 1 year old in the United States, March 1994 to March 2019, <https://www.statista.com/statistics/235494/new-entrepreneurial-businesses-in-the-us>

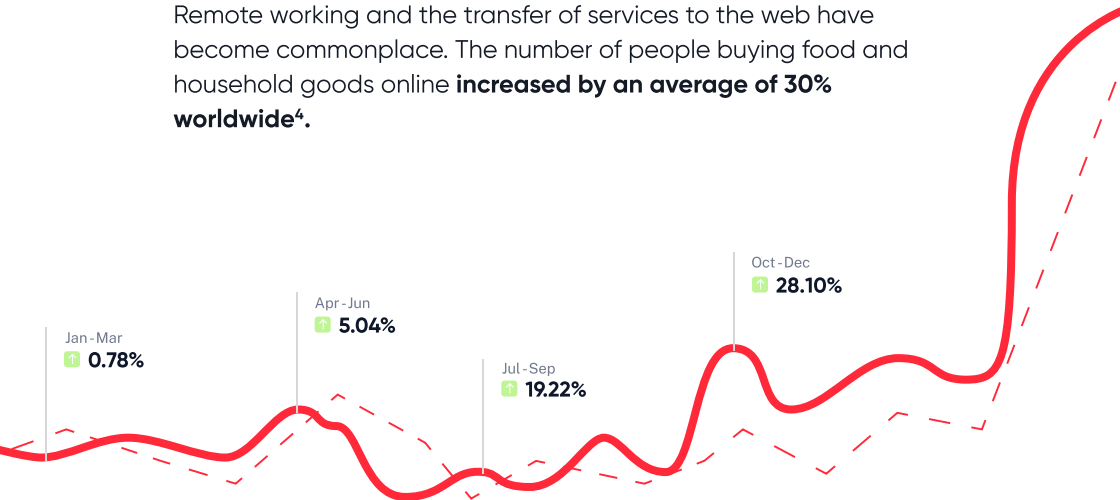
² Global Startup Ecosystem Report 2019, <https://startupgenome.com/reports/global-startup-ecosystem-report-2019>

³ Survival of private sector establishments by opening year, https://www.bls.gov/bdm/us_age_naics_00_table7.txt

In March 2020, the global economy faced an additional challenge, and the outlook for startups began to look even less favorable. For many businesses, even mature ones, the pandemic meant failure, resulting in massive job losses.

However, where one door closes, another opens. Problems and challenges pointed to new opportunities and needs, which innovators quickly recognized, adapting their business profiles to the situation.

There was a need to accelerate the digitization of many services. The health care and education sectors, as well as government agencies and corporations, had to significantly modify their business methods, adapting them to the new requirements. Remote working and the transfer of services to the web have become commonplace. The number of people buying food and household goods online **increased by an average of 30% worldwide⁴**.



⁴ Global Startup Ecosystem Report 2021, <https://startupgenome.com/reports/gser2021>

The pandemic years have affected the funding landscape for new business. Global network traffic in the fourth quarter of 2020 increased by more than 51% year-over-year. Investors were quick to take advantage of such opportunities. Global venture funding totaled \$148 billion in the first half of 2020. By the first half of 2021, it had surged by 95% to \$288 billion, according to Crunchbase⁵.

The pandemic has fortunately not drained the energy and potential of startups, but it has significantly changed their orientation and funding areas. Thanks to accelerated digitalization, geographical limitations have also ceased to play an important role.

The situation of the last two years shows how difficult the choice of investment and business development is. The very process of building and developing a new business is challenging and it does not take a global crisis for such a process to eventually fail.

What is the cause of the failure of so many businesses? How do you help yourself and make the road to success easier, faster and safer?

In our e-book, we have included the stories of three projects that failed to succeed in the marketplace despite clear premises. We analyse the decisions of their boards and find out what influenced their fate. We also show you the whole catalogue of the biggest and most common sins startups commit. Armed with this knowledge, together **we'll consider whether your startup has a chance of success and show you how to build your company step by step.**

3 stories of startup failures.





beepi.com

The Beepi project looked very promising on paper⁶. It fit perfectly into the ongoing development of the Internet trade in used cars. The market had great potential. In the very early development phase, the startup managed to raise \$60 million in funding.

Gathered funds: 149 million

What went wrong?

Leadership and management clearly failed. The founders managed to amass substantial funds in a very

3 stories of startups failures

short time. The large sum in the account lulled the vigilance of management, which accepted disproportionately high operating costs. The company grew rapidly and the number of employees increased. The high salaries of management led team the company to spend about \$7 million a month on wages alone! This could not work.

How the project failed?

Beepi.com was finally shut down in 2017. Used car dealer DGDG wanted to buy out the startup, but in the end decided to pull out.

Lesson to remember

Before you manage to get funding for your project, plan in detail how you will use the funds you acquire. What investments will allow you to move forward, and what is just an unnecessary expense? If you're developing a product, consider what features you'll need to attract customers and apply for more rounds of funding.

Google Glass 



Google Glass

Thanks to Google, the visions of SF could become our everyday lives. The public was thrilled when one of the biggest tech companies announced it had invented a device that would bring each of us closer to a personal computer. Not even at our fingertips, but right before our eyes. Google Glass⁷ was a unique invention, spearheaded by a company with vast experience. How could the product fail to win consumer recognition and appreciation?

Gathered funds: 17 million

What went wrong?

Marketing. It seems that the strategy and product were not aligned with market needs and expectations in the first place. This led to an avalanche of bad decisions. First, sales of Google Glass, began by pushing the product to influencers and early adopters. However, it was never announced when the product would be available to other potential customers. This approach, along with the estimated purchase price (\$1500), led to a gradual decline in interest. In addition, all advertising for the product was based solely on buzz marketing. There was no support for a large-scale advertising campaign and educational communications about the benefits of the device.

How the project failed?

Despite the media hype, Google Glass could not be launched for sale. However, the project was not completely dead. The glasses became the starting point for the Google Glass Enterprise Edition model, intended for the industrial sector. Thanks to completely new assumptions and strategy, the product has been adopted enough to introduce its second edition in 2019.

Lesson to remember

Developing a marketing strategy based on knowledge of the market is not just a phrase from an academic textbook. Google got off to a good start by using influencers to create hype around its product. However, this story teaches that buzz marketing is not enough. When people find your product, they also need to remember it (this is where paid advertising comes in) and feel like they want to buy it. Finally, you need to give your customers the opportunity to buy or pre-order.



Shyp

On-demand services and doorstep delivery are one of the most important market trends of our time. Shyp⁸ was launched to make international shipments even easier and more convenient by making many carriers available in one application.

Just a few months after launch, Shyp received a positive review in the New York Times, which attracted the attention of investors.

Gathered funds: 62.1 million

What went wrong?

Shyp's business model is not well-thought-out. Even though the single rate for parcel pickup and packaging was convenient for customers, the concept proved to be a challenge for the company due to the varying shipment sizes. In response, Shyp introduced packing and shipping fees based on the size of the packed item. From the company's perspective, this was a sensible move, but it drastically increased the value of the service and reduced the convenience of using it in the eyes of customers. Shyp's CEO, Kevin Gibbon, admitted that his determination to "grow at any cost" and his reluctance to listen to consultants were mistakes his company could not shake.

How the project failed?

The company was closed in 2018.

Lesson to remember

Shyp's fate illustrates the pitfalls that can happen to a business even in a very favourable market. It also illustrates the value of good and prudent planning. Too much focus on the idea itself, the technological solution, and the desire to win customers quickly can seriously jeopardize the stability of the company. Lack of realism about costs and market expectations are mistakes that may prove impossible to correct. Finally, the Shype example clearly shows that it pays to listen to consultants who look at the company from a broader perspective.



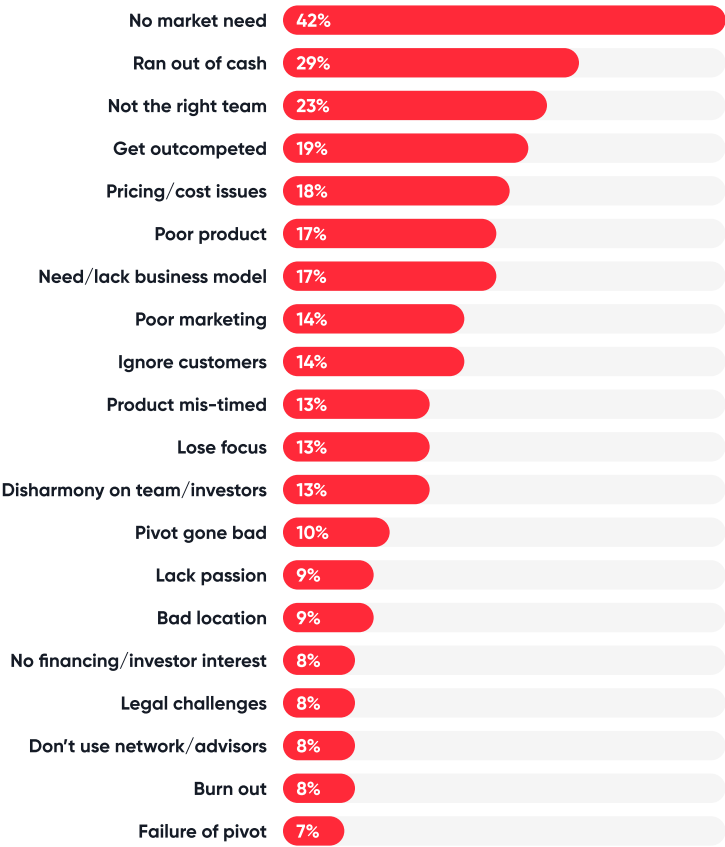
Why do startups fail?

Although the examples of the failure of companies that had clear prospects of conquering the market already show some reasons for the rapid agony of startups, the list of possible mistakes on the road to success is much longer.

The Top Reasons Startups Fail



The Top Reasons Startups Fail



Marketing

Marketing strategy issues are among the most common and deadly problems for young businesses. What mistakes in this area do you need to beware of?

Lack adaptation of product and strategy to the market

Passionate and visionary people, even if they are incredibly inspiring, often create products based solely on their intuition. However, if you're running a business, it pays to research what future customers expect before you decide to spend the first dollar on the project. Ignoring the market in which you are taking your first steps is a mistake that can have serious consequences.



It's always a good idea to ask your customers for their opinion. The popular social network Pinterest now has 70 million users worldwide. Initially, the Pinterest community was so small that co-founder Ben Silberman personally wrote to the first 7,000 users to ask what they thought of the app.

Why do startups fail?

Lack of knowledge about market size

The number of potential customers is a very important information that determines all the calculations and thus the business model of the startup. You need to know the size of the market in order to make the right financial assumptions underlying the form investors will ask you to take.

Underestimating the competition

Startup founders focus their energy on developing an innovative solution that solves customers' problems in a new way. Believing that an idea is unique can be fatal if you forget about the competition. Remember that companies that have a presence in the marketplace have the resources, people, knowledge, and position to respond to the emergence of a new product or service.

Not enough added value

Not taking competition into account in your business strategy raises another problem. Since you are not alone in the market, your value proposition will be compared to that of your competitors. So it needs to be attractive enough for users to overcome their innate reluctance to try something new. If the perceived value is too low, they may not choose your solution.

Why do startups fail?

Lack of advertising

No one will buy your product without even hearing about it. Although it seems obvious, many startups forget to create an advertising plan to reach potential customers with information about the product. Let them find you!

Finances

Postponing the raising of capital

Finding an investor for a project can take a long time and involve many rejections. However, it is not uncommon for the process of raising capital to start too late. Raising capital in a startup environment requires at least 6 months of active research, meetings, phone calls and visits. The ability to pitch a product to investors comes with time, as does the value of the product. A realistic approach to this process will allow you to find partners that fit your business model and with whom you can easily communicate about legal and financial matters.

Why do startups fail?



I bet you didn't know that the AirBnB founders pre-funded themselves by selling their own brand of cereal. At first, investors were hesitant to put money into a business model that was completely unknown. But the startup didn't give up. They bought large quantities of breakfast cereal, taped cardboard boxes together, and labeled them as limited-edition political-themed cereals called Obama O's, Cap'n McCain, and Breakfast of Change. In two months, they sold 800 for \$40 each and took in over \$30,000. In 2014, AirBnB was valued at \$1.3 billion.

Lack of a business plan

There are many ways to raise capital. Funds can come from friends, individual investors, business angels, VC, EU funding, or crowdfunding collections or tokenization. It is important to define which opportunities you want to use and what you need to do to get them. If you are applying for investor or fund support, you need to prepare a business plan and financial calculations. A ready-made version of the MVP, recommendations or a list of potential customers can also be helpful. When applying for funding, you need to have a competent person prepare the applications, and when crowdfunding, you need to think about the value proposition and promotional materials to convince the community to invest.

Why do startups fail?

Deciding on the funding source goes hand in hand with the need to make another decision on the form of funding (business, bootstrapping, loan) that is most beneficial to you now and will not restrict the development of your business in the future.

Lack of monetisation model

The funds you receive allow you to create a product, but they do not ensure that the business can be sustained. For that, you need a plan for when and how your business will make money. Will your revenue be based on commissions, subscription fees, or advertising revenue? Do you foresee any discounts or freemium periods? These are the questions you need to answer when planning your expenses.



PayPal currently processes a total of \$315.3 million per day. But few remember that when the company started, its founders paid new users \$10 to sign up and even more to recommend the platform to friends. That was a big loss at first. But that's how PayPal gained traffic and surpassed the 1 million user mark just a year after its founding.

Why do startups fail?

Funds burnout

Many startup founders are perfectionists at heart -- they want to build the perfect product that solves all problems, and only present it to customers when it's ready. This approach results in the startup not making a profit and quickly losing the money it raised. Build a scalable version of your product with the most important features and launch it immediately. This way, you'll get feedback, make your first money, and be ready to apply for more rounds of funding. Remember to keep other costs in mind as well. When the first funds land in the company account, they are often wasted on inflated salaries, incentives, or expenses justified by the need for a proper image. Keep your finger on the pulse to save your company from waste. Also remember to always negotiate terms with suppliers and partners as favourably as possible.

Team

Lack of sufficient experience

Every team should have the knowledge to make the right decisions for the business. What experience is needed? First and foremost, you need domain knowledge, which is knowledge about the market, customer needs, and the product itself.

Why do startups fail?

Then your team needs to include someone who knows marketing – who knows how to reach customers and keep them engaged. A very common cause of startup failure is building a team that consists mainly of technology experts, marginalizing the role of marketing and limiting its responsibilities to post-launch promotion of the product. The marketer should be present in the company from the beginning to support the creation of the business model and marketing strategy. Third, technological knowledge. Without it, it is impossible to develop a good product. Hiring outside programmers to implement someone's vision who has no experience as a developer usually means higher costs and longer production times. It can also lead to problems with the architecture and scalability of the solution in the future. The fourth piece of the puzzle is knowing the realities of running a business – how to make decisions, plan finances, and manage the company.

It's worth remembering that every team member should have something to contribute to the business – experience, skills or contacts. Taking and dividing shares from people who do not contribute significantly to the development of the company can lead to many unpleasant situations in the future and the disintegration of even the best friendships.

Motivation

The young company doesn't have much to offer at the beginning, neither high salaries, nor training or other social benefits. That is why the leader is a key figure for a startup. He/she is a person with charisma and experience, who inspires other team members and is

Why do startups fail?

able to communicate the vision of the company to them. The leader's own involvement in the project motivates others and makes it easier to recruit talent.

Technology

Skipping the MVP phase

If user feedback is most valuable to marketing, then the most valuable phase of product development is the MVP (Minimum Profitable Product). You need to create a product that you can use to test the market with the absolute minimum of time and effort.

Lack of technological knowledge

Do you lack the skills and experience to properly select technology and then oversee the development of the product? The solution is to introduce the company CTO and other experienced experts who will take care of your project at every stage.

Lack of scalability and flexibility of solutions

In the product development phase, the right architecture and technology are critical.

Why do startups fail?

Taking a shortcut here can sometimes pay off, but is usually associated with high developer costs in the later phases, which can permanently damage the business plan and the bank balance sheet. Protect yourself from this! Hire specialists and give them time to develop a solution that guarantees your success.

Law

Sometimes a startup can evolve from a very simple idea. However, entering a world of legal complexity can ultimately lead to failure. The need to know the market and its terms is inevitable. No startup can do without legal assistance.

PRO TIP #1

What do you need to discuss with a lawyer in the beginning? Don't forget these things!

- Legal form, share structure and agreements between the partners.
- Determining the form of taxation and accounting.
- Contracts for employees – NDA and contracts with employees.
- Protection of intellectual property – trademarks and patents.
- Licenses and legal conditions of activity.
- Regulations, data protection guidelines, warnings.
- Model contracts with customers, complaints and returns policies.



Does your startup have a chance to succeed?

Answer these five questions!

① Do you have a competition?

Do you have the confidence that no other product solves the same problem as yours? It's worth asking "why?". Are consumers perhaps solving it in other ways? Are you sure you know the barriers to entry in this market? Talk to potential customers and arrange a consultation.

② Is your product important to customers?

Does your product solve an important or urgent problem? Are customers motivated to pay for it or take the time to use it? Have you considered the value proposition of your solution and does it provide important customer benefits such as time savings, increased convenience, or new capabilities?

Does your startup have a chance to succeed?

3 Can your product replace existing solutions?

If you already know your competition, consider whether you have "that certain something" that consumers would abandon their current product choices for. How do you stand out and what attracts others to choose you? Price and functionality aren't everything. Customers are increasingly looking at convenience, value, celebrity endorsements and the community around the product that highlights their individuality.

4 Is this a good time?

All your thoughts are already engulfed by the product interface? Stick your nose out of your notebook and look at market trends, business news, legislative changes. Answer the question: is this the right time? Does the market need my solution now?

5 Do you have the necessary resources?

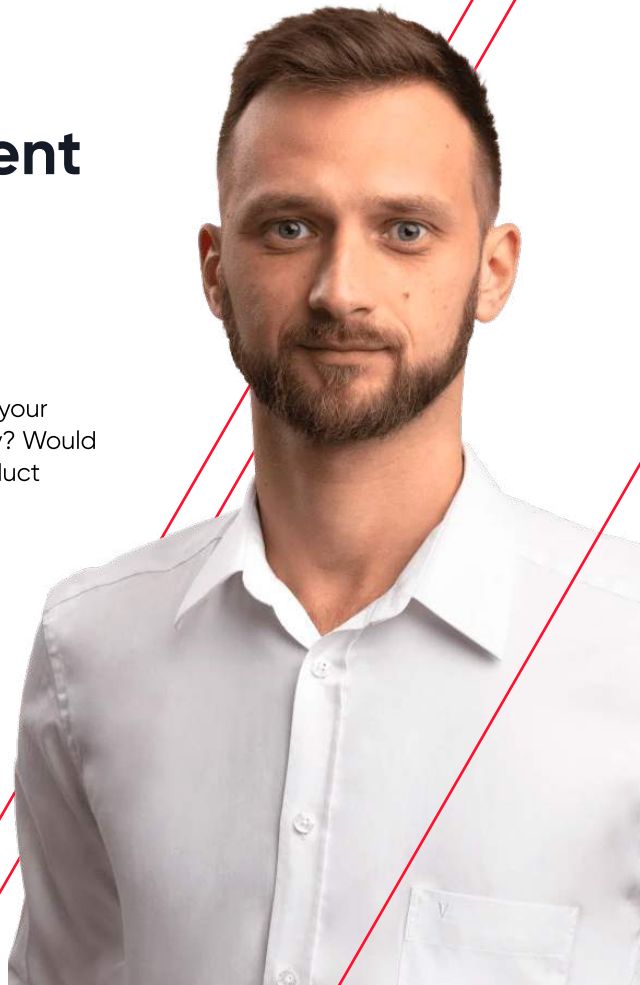
None of this matters if you don't have the financial resources to turn your idea into a successful business. But money isn't everything. The extent to which you can rely on your own commitment and that of your colleagues is also important. This leads to the question of how fast you can work on the project. Don't forget another important resource.

Does your startup have a chance to succeed?

Do you have enough knowledge and experience to make your idea a reality? Before you hire another person, take advantage of a mentoring service that will show you what is still missing in your team.

Make an appointment with our specialist!

Do you lack confidence in your business model or strategy? Would you like to discuss your product concept with an expert?



Startup Checklist

You already know what to avoid when building a startup. You've also examined whether your idea makes sense. Time to show you how to get started!

☐ **Gather your team**

The people are the most important thing. Consider whether everyone on your team gets along. If people start arguing early, it doesn't bode well for their future relationships.

☐ **Determine key areas with your team**

If you set clear terms of cooperation, you can focus on business. Answer a few questions together:

- What is the idea? Does everyone agree with the product vision?
- How will you fund the project and how will you split the shares?

Startup Checklist

- What will be the tasks of each team member and how much time will they spend on the project?
- How will you divide intellectual property rights?
- What will happen if the company fails? What will the closure of the business look like?
- What will happen if the company fails? What will the closure of the business look like?
- Have you put all the agreements in writing? Check that the documents and contracts are complete.

At the end of this phase, find at least one experienced advisor or mentor who can review all your preliminary findings. It is also worth considering adding such specialists to your team.

☐ **Thorough research**

Thorough market research, getting to know its conditions and customer needs will enable you to avoid the mistake of Google Glass. Pay attention to the size of your target audience. Also check how much and what your customers are willing to pay.

☐ **Feedback**

Approach potential audiences with your idea and ask them what they think of the idea. What would they expect from the final product? What do they think of the price list?

Be open to criticism – the more constructive feedback you get before you actually launch your work, the better your budget will look.

☐ **Prepare business plan and pitch-deck for investors**

Even if you are fortunate enough to have your own capital and are not immediately looking for backers, the business plan (and its shortened version – the "pitch deck") will help you look at the entire business from a distance and identify any gaps in the concept.

PRO TIP #2

According to the 10/20/30 rule, the pitch deck presentation should have no more than 10 slides, the presentation should last no longer than 20 minutes, and the slides should not contain text written in a font smaller than 30 point.

☐ **Create a 12-month budget and five-year financial forecast**

The investor looks at possible profits. Financial calculations are not only needed for rational business. Without calculations, no investor will take you seriously.

☐ **Work to obtain financing**

Gaining trust requires a lot of commitment. Think about who you're looking for, how you'll convince them, and on what terms you'll work with them. Distribute your pitch deck, present it at competitions and events. Involve media and influencers in the project. Don't give up!

☐ **Formalities**

Hooray! You have an investor. Take care of the relevant contracts and register your company with all the necessary bodies. For a company in Poland you need to register with:

- Central Register and Information on Economic Activity
- Statistical office
- Tax office for VAT purposes
- The tax office for income tax purposes
- ZUS

PRO TIP #3

Formalities done? Let's party! Think it's too early to celebrate? Nothing could be more wrong. Celebrating even small successes boosts team motivation and helps retain employees. Make them feel like family and responsible for each other.

☐ Choose an accountant and set up a bank account

Find an accountant who already works for businesses in your industry. Some accounting rules are so specific that it makes sense for your advisor to be experienced in a particular area.

☐ Build MVP

MVP is something that lets customers and investors see the true value of your idea. Feedback on a real, working product is the most valuable knowledge you can get. Use it when creating a development plan for the coming years.

Think BIG

Present the results of the MVP to investors and try to get funds for further development. Get the funds that will allow you to conquer the world!

Conclusion

Building your own company is an endeavour full of pitfalls that inattentive entrepreneurs tend to fall into. Google Glass, Beepi.com and Shyp's stories teach us some very important things about the world of enterprise.

First, before you start a business, you need to research the market very well. Get to know it and understand it. Operating in isolation from consumer needs, focusing only on the product itself and its technological solution (even if it's a total innovation) can be fatal to your company's ability to adapt to the market, reducing its chances of success.

Speaking of the market, it's worth talking about marketing. No matter how unique your solution is, it needs a strategy and a marketing budget. People need to know about your product. The sooner, the better, because they can give you valuable feedback, thanks to which you have a chance to improve your offer.

Conclusion

Thirdly, think your business through strategically and run it. Don't get carried away by the moment when the first larger sums are transferred from the investor to the bank account. Of course, it's worth rewarding employees and partners, but it's better to use the money for the long-term development of the business and the team than for a big event in the most expensive place in the world.

You also need to remember to seek feedback and expert opinions. When you work on a project for a long time, you can lose perspective. It's good to have someone to tell you what to change and if you're going in the right direction. The use of mentoring is of great value. Bringing specialists with experience into the project can prove to be a real competitive advantage. Especially if you choose to work with professionals who have real successes – both recognizable projects and ... failures. Streaks of success are more evidence of luck than of real knowledge about the business. Just as this e-book is designed to educate you about the plaintiff of startup failures, a good expert should have a history of failed projects behind them to share with you.

