CB Insights is a tech market intelligence platform that analyzes millions of data points on venture capital, startups, patents, partnerships and news mentions to help you see tomorrow’s opportunities, today.

CLICK HERE TO LEARN MORE
# Table of Contents

1. **#20: Failure to Pivot**  
2. **#19: Burnout**  
3. **#18: Didn’t Use Network**  
4. **#17: Legal Challenges**  
5. **#16: No Financing / Investor Interest**  
6. **#15: Failed Geographical Expansion**  
7. **#14: Lack Passion**  
8. **#13: Pivot Gone Bad**  
9. **#12: Disharmony Among Team / Investors**  
10. **#11: Lose Focus**  
11. **#10: Product Mistimed**  
12. **#9: Ignore Customers**  
13. **#8: Poor Marketing**  
14. **#7: Product Without a Business Model**  
15. **#6: User Un-Friendly Product**  
16. **#5: Pricing / Cost Issues**  
17. **#4: Get Outcompeted**  
18. **#3: Not the Right Team**  
19. **#2: Ran Out of Cash**  
20. **#1: No Market Need**
From lack of product-market fit to disharmony on the team, we break down the top 20 reasons for startup failure by analyzing 101 startup failure post-mortems.

After we compiled our list of startup failure post-mortems, one of the most frequent requests we got was to use these posts to figure out the main reasons startups failed.

Startups, corporations, investors, economic development folks, academics, and journalists all wanted some insight into the question: "WHAT ARE THE REASONS STARTUPS FAIL?"

So we gave those post-mortems the CB Insights' data treatment to see if we could answer this question.

After reading through every single of the 101 postmortems, we've learned there is rarely one reason for a single startup's failure. However, we did begin to see a pattern to these stories.

And so after sifting through the post-mortems, we identified the top 20 reasons startups failed.

Since many startups offered multiple reasons for their failure, you'll see the chart highlighting the top 20 reasons doesn't add up to 100% (it far exceeds it).

Following the chart is an explanation of each reason and relevant examples from the postmortems.
The Top 20 Reasons Startups Fail

- **No Market Need**: 42%
- **Ran Out of Cash**: 26%
- **Not the Right Team**: 23%
- **Get Outcompeted**: 19%
- **Pricing / Cost Issues**: 18%
- **User Un-friendly Product**: 17%
- **Product Without a Business Model**: 17%
- **Poor Marketing**: 14%
- **Ignore Customers**: 14%
- **Product Mistimed**: 13%
- **Lose Focus**: 13%
- **Disharmony Among Team / Investors**: 13%
- **Pivot Gone Bad**: 10%
- **Lack Passion**: 9%
- **Failed Geographical Expansion**: 9%
- **No Financing / Investor Interest**: 8%
- **Legal Challenges**: 8%
- **Didn’t Use Network**: 8%
- **Burn Out**: 8%
- **Failure to Pivot**: 7%
There is certainly no survivorship bias here. But many very relevant lessons for anyone in the entrepreneurial ecosystem.

It’s worth noting that this type of data-driven analysis would not be possible without a number of founders being courageous enough to share stories of their startup’s demise with the world. So a big thank you to them.
#20: Failure to pivot

Not pivoting away or quickly enough from a bad product, a bad hire, or a bad decision was cited as a reason for failure in 7% of the post mortems. Dwelling or being married to a bad idea can sap resources and money as well as leave employees frustrated by a lack of progress.

Imercive is one company that went under due to a failure to pivot. The company, which shut down in 2009, originally intended to let people order from local restaurants via instant messages.

After that concept proved too difficult and expensive to be functional, founder Keith Nowak decided to think bigger. Instant messaging could be used to help people interact with all kinds of businesses, not just restaurants — and in turn, it would help those businesses interact better with their customers.

But by the time Nowak recognized this new, bigger opportunity, Imercive had already spent most of the money from its seed round. Without any results to show for it, nor any proof that the new vision could gain traction, the company had to close down.
As Keith Nowak writes in Imercive's post-mortem:

“We were caught mid-pivot – half way between a strategy we knew wouldn’t work and one which we believed could be successful but was not able to be aggressively pursued. This was a very difficult place to be both professionally and personally. We were extremely frustrated at not being able to properly go after our new strategy and every day that passed without meaningful progress was one step closer to the failure of my first company. Even though we put everything we had into getting through this phase we were never able to make it through the pivot.”

However, some say pivoting isn’t always the answer. Union Square Ventures’ Fred Wilson wrote in a 2018 blog post that the concept of pivoting out of a bad startup idea is overrated, and that often it’s better to just let a bad idea fail:

“There is nothing I dislike more than carrying on with something when I’ve lost interest, and worse, the founders have lost interest. So my view is if you’ve failed, accept it, announce it, and deal with it. Shut the business down, give back the cash, and rip up the cap table. Then do whatever you want to do next. If it is another startup, do it from scratch and keep as much of it as you can. If it is something else, well then do that too.”
Work-life balance is not something that startup founders often get, so the risk of burning out is high. Burnout was given as a reason for failure 8% of the time. The ability to cut your losses where necessary and redirect your efforts when you see a dead end was deemed important to succeeding and avoiding burnout, as was having a solid, diverse, and driven team so that responsibilities can be shared.

What can make conversations about burnout difficult, especially in Silicon Valley, is the widespread belief that building a successful company will always involve some degree of possibly hazardous overwork. As Uber board member and CEO of Thrive Global Arianna Huffington puts it:

“The prevalent view of startup founders in Silicon Valley is a delusion that in order to succeed, in order to build a high-growth company, you need to burn out.”
At the same time, various founders have spoken up about how damaging burnout can be. Former Zenefits CEO Parker Conrad has said,

“I think people are unprepared for how hard and awful it is going to be to start a company. I certainly was.”
#18: Didn't use network

We often hear about startup entrepreneurs lamenting their lack of network or investor connections, so we were surprised to see that one of the reasons for failure was entrepreneurs who said they did not properly utilize their own network.

As Kiko wrote,

“Get your investors involved. Your investors are there to help you. Get them involved from the start, and don’t be afraid to ask for help. I think we made the mistake early on of trying to do (and know) everything ourselves, perhaps out of insecurity over being so new to the business world. This is a mistake.”
Sometimes a startup can evolve from a simple idea and enter a world of legal complexities that can ultimately shut it down.

For example, Decide.com launched in 2011 as a tool to help people predict when the prices of certain consumer goods would change. Alongside listed prices for products from major retailers like Target and Best Buy, Decide.com included the price of an item on Amazon. As the company wrote in its post-mortem, Amazon wasn’t happy with that:

“We received a notice from them informing us we weren’t compliant and unless we removed it they’d suspend our affiliate account. We weren’t making a lot of money but that account probably represented more than 80% our revenue.”
Various music startup post-mortems also associated the high costs of dealing with record labels and legal headaches as a reason for startup failure.

High-profile startup Turntable.fm wrote,

“Ultimately, I didn’t heed the lessons of so many failed music startups. It’s an incredibly expensive venture to pursue and a hard industry to work with. We spent more than a quarter of our cash on lawyers, royalties and services related to supporting music. It’s restrictive. We had to shut down our growth because we couldn’t launch internationally.”

Smart luggage manufacturer Bluesmart also fell victim to legal challenges. The company shut down in 2018 after most major US airlines enacted a policy requiring all airline travelers to remove lithium-ion batteries from their checked luggage:

“We have bittersweet news to share. The changes in policies announced by several major airlines at the end of last year—the banning of smart luggage with non-removable batteries—put our company in an irreversibly difficult financial and business situation. After exploring all the possible options for pivoting and moving forward, the company was finally forced to wind down its operations and explore disposition options, unable to continue operating as an independent entity.”
Tying to the more common reason of running out of cash, a number of startup founders explicitly cited a lack of investor interest either at the seed follow-on stage (the Series A Crunch) or at all.

**Smart earbud startup Doppler** took hundreds of meetings to try to raise the necessary capital, but investors just didn’t seem to believe in the general market:

“The market has shifted remarkably for hardware. We are incredibly bullish on the Here Two, and the OTC Hearing Aid Act has passed, but we need real capital to do it. The feedback we continually got is, ‘we are not investing in hardware, and we especially are not investing in hardware at these numbers.’ It’s too high a risk even for the Valley.”
A similar fate befell the “real time reconnaissance platform” Shnergle, which shut down in 2013 due to an insufficient amount of available “risk capital” in its geographic region:

“Does your idea only monetise at scale? If your idea can only be monetised at scale, head to San Francisco / Silicon Valley. There isn’t enough risk capital, or enough risk appetite, in the UK/EU venture market to pour capital into unproven R&D concepts. If you want to build in the UK, find some way of charging money from day one. You can still use a freemium structure to up-sell later. Shnergle was never going to monetise before it had scaled fairly significantly. Fail!”

Lastly, sometimes companies can’t raise the money they need is because one of their competitors already did. This was the case for Sidecar, which raised more than $35M for its ride-sharing and B2B delivery service before being forced to sell to GM in 2016:

“In short, we were forced to shut down operations and sell. We were unable to compete against Uber, a company that raised more capital than any other in history and is infamous for its anti-competitive behavior. The legacy of Sidecar is that we out-innovated Uber but still failed to win the market. We failed – for the most part – because Uber is willing to win at any cost and they have practically limitless capital to do it.”


**#15: Failed geographical expansion**

Location was an issue in a couple of different ways. The first was that there has to be congruence between your startup’s concept and location.

As the location-aware instant messaging service Meetro wrote,

“We launched our product and got all of our friends in Chicago on it. We then had the largest papers in the area do nice detailed write-ups on us. Things were going great ... The problem we would soon find out was that having hundreds of active users in Chicago didn’t mean that you would have even two active users in Milwaukee, less than a hundred miles away, not to mention any in New York or San Francisco. The software and concept simply didn’t scale beyond its physical borders.”
Location also played a role in failure for remote teams. The key being that if your team is working remotely, make sure you find effective communication methods, otherwise lack of teamwork and planning could lead to failure.

As Devver wrote,

“The most significant drawback to a remote team is the administrative hassle. It’s a pain to manage payroll, unemployment, insurance, etc in one state ... for a small team, it was a major annoyance and distraction.”
#14: Lack of passion

There are many good ideas out there in the world, but 9% of startup post-mortem founders found that a lack of passion for a domain and a lack of knowledge of a domain were key reasons for failure no matter how good an idea is.

In NewsTilt's post-mortem, the team candidly spoke about their lack of interest in the domain they selected:

“I think it’s fair to say we didn’t really care about journalism. We started by building a commenting product which came from my desire for the perfect commenting system for my blog. This turned into designing the best damn commenting system ever, which led to figuring out an ideal customer: newspapers...
“But we didn’t really care about journalism, and weren’t even avid news readers. If the first thing we did every day was go to news.bbc.co.uk, we should have been making this product. But even when we had NewsTilt, it wasn’t my go-to place to be entertained, that was still Hacker News and Reddit. And how could we build a product that we were only interested in from a business perspective.”

Doughbies, which raised $670,000 for an on-demand cookie delivery service in 2013, also failed because of a lack of interest from its founders and team. The company appeared to be doing well, with 36% gross margins and 12% net profit at the time it shut down. The problem, as CEO Daniel Conway put it, was that there wasn’t massive growth or enough interest in running the business:

“All ultimately we shut down because our team is ready to move on to something new.”
#13: Pivot gone bad

Pivots like Burbn to Instagram or ThePoint to Groupon can go extraordinarily well. Or they can start you down the wrong road.

As Flowtab's post-mortem explains,

“Pivoting for pivoting’s sake is worthless. It should be a calculated affair, where changes to the business model are made, hypotheses are tested, and results are measured. Otherwise, you can’t learn anything.”

For David Hyman, the founder of Blin.gy, a last-ditch attempt to save his startup from failure led him to pivot:

“Blin.gy was a pivot from our earlier app, Chosen, which attempted to gamify the performance competition space... We came up with a fresh take on the plethora of AR-style apps that create visual effects based on face detection and tracking.”
In the end, the new direction didn’t save the company:

“[Poor user experience] had a big impact on our retention metrics. We needed 40% day-one returns and were closer to 25%. The clock kept ticking... We set up 18 VC meetings and hit the road, hard. The feedback was eye-opening and generally the same: ‘Really great technology and vision. But how does this become a platform?’... We didn’t have a compelling answer.”
Discord with a cofounder was a fatal issue for startup post-mortem companies. But acrimony isn't limited to the founding team, and when things go bad with an investor, it can get ugly pretty quickly as evidenced in the case of ArsDigita.

Phillip Greenspun writes:

“For roughly one year Peter Bloom (General Atlantic), Chip Hazard (Greylock), and Allen Shaheen (CEO) exercised absolute power over ArsDigita Corporation. During this year they:

1. spent $20 million to get back to the same revenue that I had when I was CEO

2. declined Microsoft’s offer (summer 2000) to be the first enterprise software company with a .NET product …

3. deprecating the old feature-complete product (ACS 3.4) before finishing the new product (ACS 4.x) …
4. created a vastly higher cost structure; I had 80 people mostly on base salaries under $100,000 and was bringing in revenue at the rate of $20 million annually. The ArsDigita of Greylock, General Atlantic, and Allen had nearly 200 with lots of new executive positions at $200,000 or over …

5. surrendered market leadership and thought leadership”

At Pellion Technologies, the end came more quietly, as its major backer Khosla Ventures lost faith in the company’s ability to execute:

“According to former employees, all of whom requested anonymity, Khosla Ventures lost confidence that Pellion could make enough money serving a niche market. The lithium-metal technology worked for products like drones, but the big money in the battery world is in the automotive sector. Investors weren’t willing to sink the money needed to develop the battery for electric vehicles.”

In March 2019, Khosla decided the company would be shut down, and removed Pellion’s name from its online firm portfolio.
#11: Lose focus

Getting sidetracked by distracting projects, personal issues, and/or general loss of focus was mentioned in 13% of stories as a contributor to failure.

As MyFavorites wrote at the end of its startup experience,

“Ultimately when we came back from SXSW, we all started losing interest, the team was all wondering where this was eventually going, and I was wondering if I even wanted to run a startup, have investors, have the responsibility of employees and answering to a board of investors.”
Similarly, the post-mortem for e-commerce startup DoneByNone, cites a lack of focus and its effect on the customer experienced as reasons for the company’s demise:

“Here’s the long story: we’re a small start-up, and as you can imagine, life has been quite tough for small e-commerce retailers – and we went to hell and hopefully are on our way back from there. While we were focusing on other things that needed solving, we took our eyes off you and your issues.”
#10: Product mistimed

If you release your product too early, users may write it off as not good enough and getting them back may be difficult if their first impression of you is negative. And if you release your product too late, you may have missed your window of opportunity in the market.

As a Calxeda employee said,

“In [Calxeda’s] case, we moved faster than our customers could move. We moved with tech that wasn’t really ready for them – ie, with 32-bit when they wanted 64-bit. We moved when the operating-system environment was still being fleshed out – [Ubuntu Linux maker] Canonical is all right, but where is Red Hat? We were too early.”
VR platform Vreal intended to build a virtual reality space for video game streamers to hang out with their viewers and raised almost $12M in its 2018 Series A. However, the available hardware and bandwidth capabilities didn’t evolve as fast as the company had expected, and though it delivered on its promise, Vreal struggled to attract any significant usage:

“Unfortunately, the VR market never developed as quickly as we all had hoped, and we were definitely ahead of our time. As a result, Vreal is shutting down operations and our wonderful team members are moving on to other opportunities.”
#9: Ignore customers

Ignoring users is a tried and true way to fail. Tunnel vision and not gathering user feedback are fatal flaws for most startups.

For instance, eCrowds, a web content management system company, said,

“We spent way too much time building [our product] for ourselves and not getting feedback from prospects — it’s easy to get tunnel vision. I’d recommend not going more than two or three months from the initial start to getting in the hands of prospects that are truly objective.”

Similarly, VoterTide wrote,

“We didn’t spend enough time talking with customers and were rolling out features that I thought were great, but we didn’t gather enough input from clients. We didn’t realize it until it was too late. It’s easy to get tricked into thinking your thing is cool. You have to pay attention to your customers and adapt to their needs.”
#8: Poor marketing

Knowing your target audience and knowing how to get their attention and convert them to leads and ultimately customers is one of the most important skills of a successful business. But an inability to market was a common failure especially among founders who liked to code or build product but who didn't relish the idea of promoting the product.

As Overto wrote,

“Thin line between life and death of internet service is a number of users. For the initial period of time the numbers were growing systematically. Then we hit the ceiling of what we could achieve effortlessly. It was a time to do some marketing. Unfortunately no one of us was skilled in that area. Even worse, no one had enough time to fill the gap. That would be another stopper if we dealt with the problems mentioned above.”
#7: Product without a business model

Most failed founders agree that a business model is important – staying wedded to a single channel or failing to find ways to make money at scale left investors hesitant and founders unable to capitalize on any traction gained.

As Tutorspree wrote,

“Although we achieved a lot with Tutorspree, we failed to create a scalable business … Tutorspree didn’t scale because we were single channel dependent and that channel shifted on us radically and suddenly. SEO was baked into our model from the start, and it became increasingly important to the business as we grew and evolved. In our early days, and during Y Combinator, we didn’t have money to spend on acquisition. SEO was free so we focused on it and got good at it.”
At **Aria Insights**, the concept of outfitting drones with sensors to collect data from extreme environments seemed promising. But while the company got off the ground and found a few high-profile investors — including Bessemer Venture Partners — it ultimately couldn’t find a compelling use for that data, and therefore couldn’t adequately monetize its business model:

“**CyPhy Works rebranded as Aria Insights in January 2019 to focus more on using artificial intelligence and machine learning to help analyze data collected by drones. ‘A number of our partners were collecting and housing massive amounts of information with our drones, but there was no service in the industry to quickly and efficiently turn that data into actionable insights,’** Lance Vanden Brook, former CyPhy and current Aria CEO said at the time of the rebranding.”
#6: User un-friendly product

Bad things happen when you ignore what a users wants and need, whether consciously or accidentally.

Here’s what GameLayers wrote on their product UI,

“Ultimately I believe PMOG lacked too much core game compulsion to drive enthusiastic mass adoption. The concept of “leave a trail of playful web annotations” was too abstruse for the bulk of folks to take up. Looking back I believe we needed to clear the decks, swallow our pride, and make something that was easier to have fun with, within the first few moments of interaction.”
“Our most expensive monthly plan was US$300. Customers who churned never complained about the price. We just didn’t deliver up to their expectation. We originally priced by the number of recording credits. Since our customers had no control on the length of the recordings, most of them were very cautious on using up the credits. Plans based on the accumulated duration of recordings make much more sense for us and the number of subscription showed.”
The 2019 shutdown of genetic testing and scientific wellness startup Arivale came as a surprise to many partners and customers, but the reason behind the company's failure was as simple: the price of running the company was too high compared to the revenues it brought in:

“Our decision to terminate the program today comes despite the fact that customer engagement and satisfaction with the program is high and the clinical health markers of many customers have improved significantly. Our decision to cease operations is attributable to the simple fact that the cost of providing the program exceeds what our customers can pay for it. We believe the costs of collecting the genetic, blood and microbiome assays that form the foundation of the program will eventually decline to a point where the program can be delivered to consumers cost-effectively. Regrettably, we are unable to continue to operate at a loss until that time arrives...”
#4: Get outcompeted

Despite the platitudes that startups shouldn’t pay attention to the competition, the reality is that once an idea gets hot or gets market validation, there may be many entrants in a space. And while obsessing over the competition is not healthy, ignoring them was also a recipe for failure in 19% of the startup failures.

Mark Hedland of Wesabe talked about this in his post-mortem stating:

“Between the worse data aggregation method and the much higher amount of work Wesabe made you do, it was far easier to have a good experience on Mint, and that good experience came far more quickly.”
Everything I’ve mentioned — not being dependent on a single source provider, preserving users’ privacy, helping users actually make positive change in their financial lives — all of those things are great, rational reasons to pursue what we pursued. But none of them matter if the product is harder to use.”

Children’s apparel delivery service Mac & Mia found itself in a tough spot competing with highly successful companies like Stitch Fix and shut down only a year after its 2018 launch:

“Mac & Mia faced a host of competitors in the children’s delivery box space, including the aforementioned Stitch Fix, which launched its kids clothing service in 2018. Stitch Fix went public in 2017 and has a market cap around $2.7 billion. At least 20 other upstarts have launched similar delivery services for children’s clothes.”
#3: Not the right team

A diverse team with different skill sets was often cited as being critical to the success of a company. Failure post-mortems often lamented that “I wish we had a CTO from the start,” or wished that the startup had “a founder that loved the business aspect of things.”

The Standout Jobs team wrote in the company's post-mortem,

“...The founding team couldn’t build an MVP on its own. That was a mistake. If the founding team can’t put out product on its own (or with a small amount of external help from freelancers) they shouldn’t be founding a startup. We could have brought on additional co-founders, who would have been compensated primarily with equity versus cash, but we didn’t.”
In some cases, the founding team wished they had more checks and balances. As Nouncer’s founder wrote, “This brings me back to the underlying problem I didn’t have a partner to balance me out and provide sanity checks for business and technology decisions made.”

At Zirtual, which was forced to lay off 400 employees overnight after a series of financial mistakes and miscalculations, co-founder and CEO Maren Kate Donovan later admitted that one key mistake was not bringing a CFO onto the board:

“If [a board] had actually been in tune, this would have been caught like six months ago... I blame myself on a lot of this, in not hiring more experienced people, but it wasn’t any maliciousness beyond just naivete... In retrospect if we had a senior finance person and a senior ops person it would have been a completely different story.”
#2: Ran out of cash

Money and time are finite and need to be allocated judiciously. The question of how should you spend your money was a frequent conundrum and reason for failure cited by startups (29%).

As the team at Flud exemplified, running out of cash was often tied to other reasons for startup failure including failure to find product-market fit and failed pivots,

“In fact what eventually killed Flud was that the company wasn’t able to raise this additional funding. Despite multiple approaches and incarnations in pursuit of the ever elusive productmarket fit (and monetization), Flud eventually ran out of money — and a runway.”
In September 2019, augmented reality startup Daqri shut down after burning through more than $250M in funding and failing to raise a new round from investors:

“Daqri faced substantial challenges from competing headset makers, including Magic Leap and Microsoft, which were backed by more expansive war chests and institutional partnerships. While the headset company struggled to compete for enterprise customers, Daqri benefited from investor excitement surrounding the broader space. That is, until the investment climate for AR startups cooled.”

European budget airline Wow Air met a similar fate; Chairman Skuli Mogensen wrote to employees:

“We have run out of time and have unfortunately not been able to secure funding for the company... I will never be able to forgive myself for not taking action sooner.”
#1: No market need

Tackling problems that are interesting to solve rather than those that serve a market need was cited as the No. 1 reason for failure, noted in 42% of cases.

As Patient Communicator wrote,

“I realized, essentially, that we had no customers because no one was really interested in the model we were pitching. Doctors want more patients, not an efficient office.”

Treehouse Logic applied the concept more broadly in their post-mortem, writing,

“Startups fail when they are not solving a market problem. We were not solving a large enough problem that we could universally serve with a scalable solution.”
We had great technology, great data on shopping behavior, great reputation as a though leader, great expertise, great advisors, etc, but what we didn’t have was technology or business model that solved a pain point in a scalable way.”

Kolos was direct about its biggest mistake:

“With Kolos, we did a lot of things right, but it was useless because we ignored the single most important aspect every startup should focus on first: the right product.”

A month after Paul Graham, Jessica Livingston, Trevor Blackwell, and Robert Morris started the Y Combinator seed accelerator in 2005, they picked “make something people want” as their motto.

Our study shows that failing to do this is one of the easiest ways to guarantee startup failure.
WHERE IS ALL THIS DATA FROM?

The CB Insights platform has the underlying data included in this report

CLICK HERE TO SIGN UP FOR FREE