

Failed Startups: Learning from common failures in the tech sector

By Erik Sherman

In the tech sector, learning from common failures is tougher than it might seem. Few people want to talk about these lessons.

Young startup failure is a reality, and it's not a bad idea to try to learn from the patterns. CB Insights studied tech companies that died between 2010 and 2013. One insight from the report is that entrepreneurs miss an enormous learning opportunity because of survivor bias. Lots of people want to emphasize that they are serial entrepreneurs; few will admit to being serial failures.

In survivor bias, people focus their attention on the winners: Facebook, Twitter, Square, Instagram, and the like. The focus acts like blinders, making people look past the flops that far and away represent the bulk of startups. The result is that everyone is learning lessons only from the winners, which is dangerous, for two reasons. One is that the combination of factors that makes one startup a hit might not be repeatable for any number of reasons: market timing, the particular combination of talents, connections, or what have you.

There are more potential missteps than successful paths, and you need to learn where not to go. But how can you hear about what no one discusses? Related to survivor bias is the difficulty in knowing when companies have died. In fact, many startups are essentially dead but limp along for years in zombie-like fashion. That is, assuming anyone ever heard of them in the first place. And VCs also like to push their losses out of the way in as quiet a fashion as possible. So, identifying failures in an attempt to extract valuable insights becomes even more difficult.-

The Report of CBInsights.com

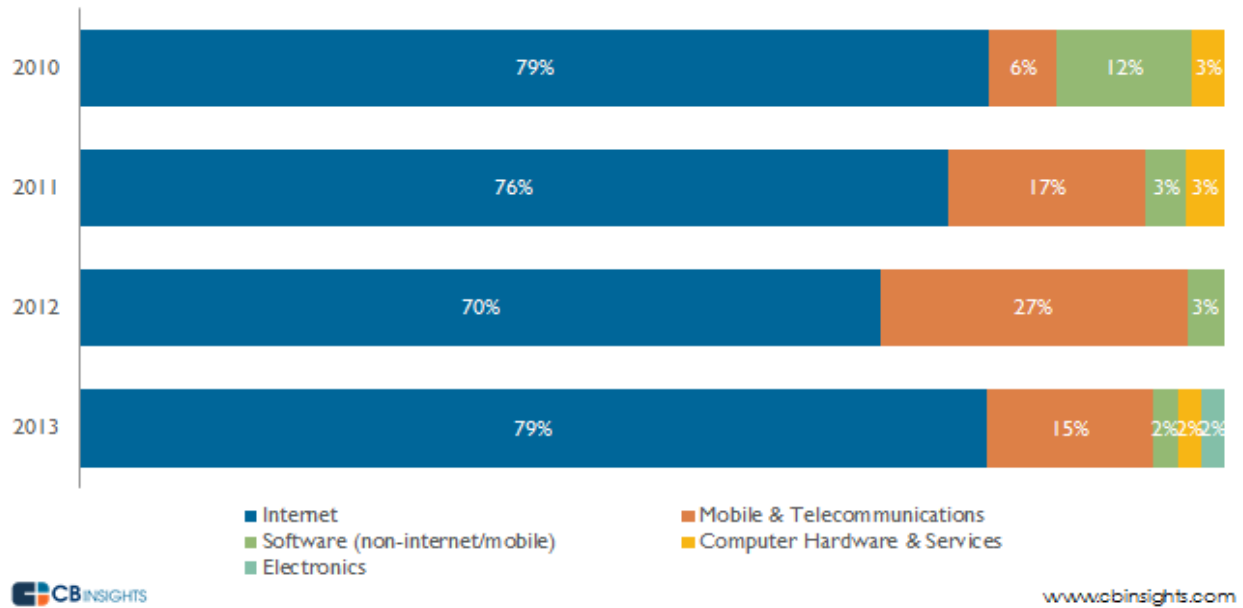
Companies in the social industry saw the highest of number of startup failures in the period in question. For most tech companies whose intellectual property or talent is not compelling enough to catch the eye of the Googles, Facebooks, or Yahoos of the world, the cold hard reality is death.

We wanted to take a look at CB Insights data on tech companies that died between 2010 and 2013 to see what we can learn about startup mortality. A few notes first:

- 1. Startup death is surprisingly hard to identify.** Many startups are essentially dead but limp along for years in zombie-like fashion. So although on life support, these walking dead startups are not included in this analysis since they're not officially deceased. A senior lecturer at Harvard, who'd studied startup mortality found that "VCs bury their dead very quietly" further compounding the issue of identifying dead companies.
- 2. Survivorship bias reigns.** We tend to fawn over the few billion dollar exits and hear little of the failures. As a result, there is less data out there about startup death. Ultimately, this is bad for the ecosystem as Jason Cohen explains, "The fact that you are only learning from success is a deeper problem than you imagine".

In each year since 2010, 70% of all dead tech companies have been in the internet sector. The % of companies dying within the internet sector has stayed relatively range bound over the last several years as well. Mobile has seen far more volatility in terms of its share of dead companies.

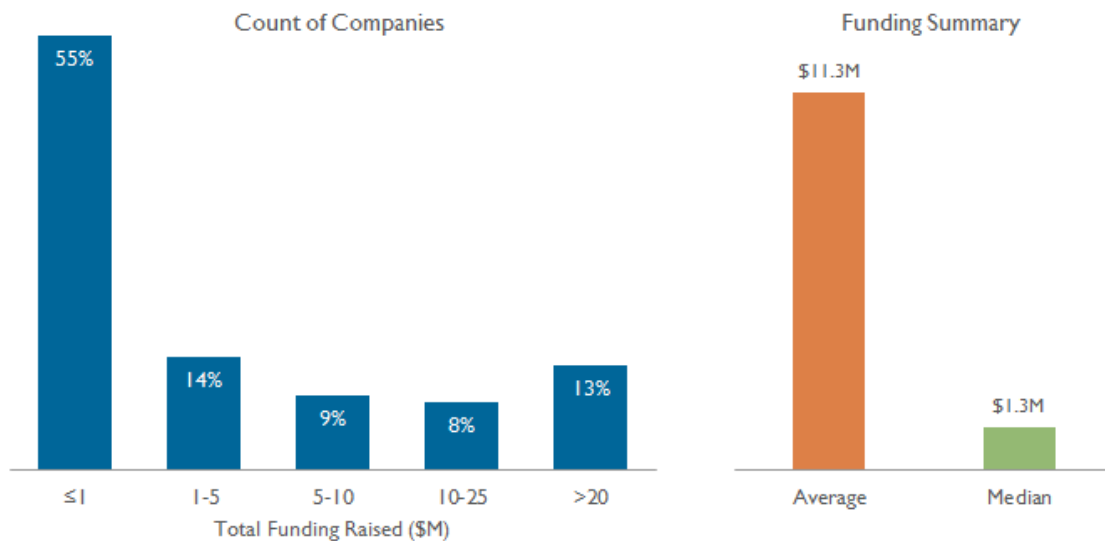
Dead Tech Companies By Sector, 2010 - 2013



Most Dead Companies Died Before Raising >\$1M

55% of failed startups raised \$1M or less, and almost 70% companies died having raised less than \$5M overall. Not a big surprise. Companies at the earliest stages are the most vulnerable due to limited financial runway, immature products and businesses and general uncertainty about whether the market needs what they've built.

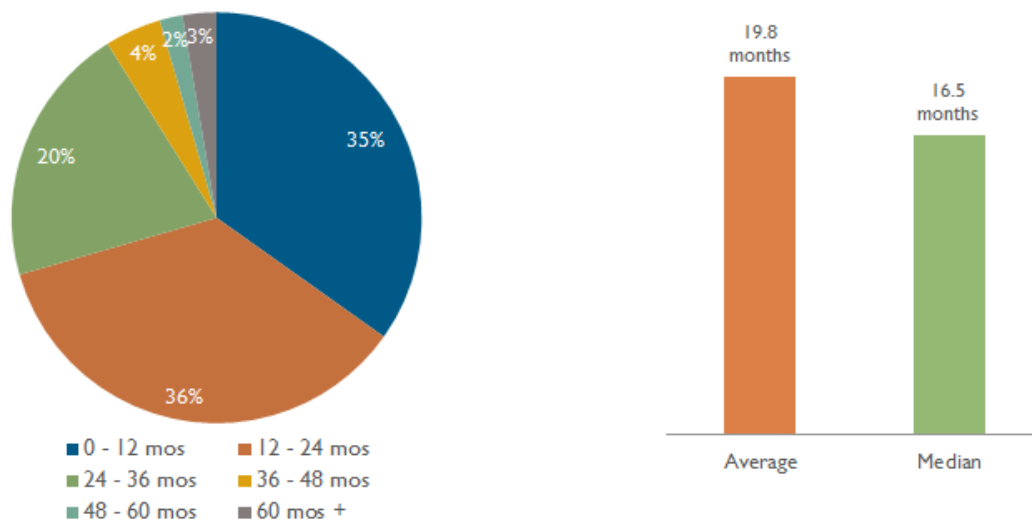
Dead Tech Companies: Funding Raised 2010 - 2013



20 months: The Average Time Between a Company's Last Funding Round and Death

71% of the dead companies lasted less than two years after their last funding round. While some companies can take up to five years after their last funding round to be officially declared dead, the average company dies ~20 months from its last funding round in the absence of additional funding or acquirers. The median time is 16.5 months, or a little under a year and a half. So if you haven't seen either more capital or an interested acquirer by the 15-month mark, things are not looking good.

Dead Tech Companies: Time Since Last Funding 2010 - 2013



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Death is not specific to a particular type of sector or industry. In fact, the companies on our dataset represent a fairly diverse set of sub-industries. To help you identify what's not hot, the sub-industries with the most dead companies, over the past four years and in 2013, are shown below.

2013 rank	4 year rank	Subindustry
1	1	Social
2	2	Marketplace
2	2	Advertising, Sales & Marketing
4	4	Music
4	4	Video
-	6	Auction & Classifieds
10	6	Apparel & Accessories
-	6	Accounting & Finance
-	6	News & Discussion
10	6	Business Intelligence, Analytics & Performance Mgmt
10	6	Data Storage
-	6	HR & Workforce Management

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